FOOTSTAR INC
Form PRER14A
May 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. 1)

Filed by the Registrant x

Filed by a Party other than the Registrant x

Check the appropriate box:

x Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule14a-6(e)(2))

¨ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Under Rule 14a-12

FOOTSTAR, INC.
(Name of Registrant as Specified in Its Charter)

FOOTSTAR, INC.
FOOTSTAR ACQUISITION, INC.
(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Title of each class of securities to which transaction applies:

Common Stock, par value $0.01 per share ("Common Stock")

(2) Aggregate number of securities to which transaction applies:

24,183,897 shares of Common Stock

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee of $16.54 was calculated pursuant to Exchange Act Rule 0-11 by multiplying 0.0001161 by an amount equal to the product of 150,000 shares of Common Stock, which constitutes the total number of outstanding shares of Common Stock estimated to be exchanged for the right to receive $0.95 per share in cash, without interest, in the proposed merger, and $0.95 per share.

(4) Proposed maximum aggregate value of transaction:

$142,500

(5) Total fee paid:

$16.54

x Fee paid previously with preliminary materials:

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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FOOTSTAR, INC.
933 MACARTHUR BLVD.
MAHWAH, NEW JERSEY 07430
(201) 934-2000

[________], 2011

Dear Footstar Stockholders:

You are cordially invited to attend a special meeting of stockholders of Footstar, Inc. ("Footstar"), to be held at 10:00 a.m., local time, on [________], 2011, at the offices of Olshan Grundman Frome Rosenzweig & Wolosky LLP located at Park Avenue Tower, 65 East 55th Street, New York, New York 10022. At the meeting, in accordance with Delaware law, our stockholders of record as of May 5, 2009 will be asked to consider and vote upon a proposal to revoke the Amended Plan of Complete Dissolution and Liquidation of Footstar, Inc. (the "Plan of Dissolution"). In addition, subject to the approval of the first Proposal, our stockholders of record as of [_________], 2011 will be asked to vote upon a proposal to adopt an Agreement and Plan of Merger, dated as of February 14, 2011, pursuant to which Footstar Acquisition, Inc. ("Acquisition") will merge with and into Footstar, with Footstar as the surviving corporation.

The merger, if approved, will enable us to terminate the registration of our common stock under the federal securities laws and thereby eliminate the significant expense required to comply with the reporting and related requirements under those laws. Commonly referred to as a "going private" transaction, the proposed merger will reduce the number of our stockholders of record to fewer than 300, as required for the elimination of our periodic reporting obligations under the federal securities laws. As a result, our common stock will be ineligible for quotation on the OTC Bulletin Board. At a special meeting held on May 5, 2009, Footstar's stockholders adopted and approved the Plan of Dissolution. In order to consummate the merger with Acquisition, Footstar must first revoke the Plan of Dissolution, which under Delaware law requires the approval of stockholders. Accordingly, the approval of the proposal to approve the merger is subject to the approval of the proposal to revoke the Plan of Dissolution. See the accompanying proxy statement for a more detailed discussion of the reasons for and effects of the merger.

Under the terms of the merger agreement, each outstanding share of our common stock (other than shares as to which appraisal rights have been demanded and not withdrawn or lost) held by those of you who own fewer than 500 shares of our common stock in record form in any discrete account will, at the effective time of the merger, be cancelled and converted into the right to receive $0.95 in cash, without interest. As of [_________], 2011, only approximately 0.5% of our shares are held by stockholders owning less than 500 shares in record form. We believe that a cash-out threshold of 500 shares will have the effect of enabling us to "go private." Throughout the attached proxy statement, when we refer to the small stockholders or cashed-out stockholders we are referring to holders of record of fewer than 500 shares of our common stock. In addition, when we refer to continuing stockholders or remaining stockholders, we are referring to holders of record of 500 or more shares.

As a result of the merger, if you own fewer than 500 shares of our common stock in record form in any discrete account immediately prior to the merger, you will not have any ownership interest in Footstar and you will not participate in any potential future earnings (or losses) or growth of Footstar after the merger. Stockholders holding 500 or more shares of our common stock (which holdings currently constitute approximately 0.5% of our outstanding shares) in record form in any discrete account will continue to own the same number of shares after the merger (unless you exercise appraisal rights with respect to your shares).

After careful consideration, the board of directors of Footstar unanimously determined that the merger is advisable, fair to and in the best interests of Footstar's unaffiliated stockholders, including both unaffiliated continuing stockholders and unaffiliated cash-out stockholders, and has adopted the merger agreement and, accordingly, recommends that its stockholders of record as of [_________], 2011 vote “FOR” adoption of the merger agreement and its stockholders of record as of May 5, 2009 vote “FOR” the proposal to revoke the Plan of Dissolution. In making its recommendation, the board of directors considered a variety of factors, which are described in the accompanying proxy statement .

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Consummation of the merger is subject to certain conditions, including the affirmative vote by holders of a majority of the voting power of our common stock outstanding as of [_________], 2011, the record date for the proposal to approve the merger, to adopt the merger agreement and approve the merger, and the approval of the revocation of the Plan of Dissolution pursuant to its terms. Approval of the revocation of the Plan of Dissolution is subject to, among other things, the affirmative vote by holders of a majority of the voting power of our common stock outstanding as of May 5, 2009, the record date for the proposal to revoke the Plan of Dissolution. Details of the proposed transactions are set forth in the accompanying proxy statement, which we urge you to read carefully in its entirety.

If you are a holder of record as of [_________], 2011, the record date for the proposal to approve the merger, you will find enclosed a proxy card to vote on that proposal. To adopt the merger agreement and approve the merger you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card.

If you are a holder of record as of May 5, 2009, the record date for the proposal to revoke the Plan of Dissolution, you will find enclosed a proxy card to vote on that proposal. To approve the proposal to revoke the Plan of Dissolution you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card.

If you properly sign and return your proxy card(s) with no voting instructions, you will be deemed to have voted "FOR" adoption of the merger agreement and/or "FOR" the proposal to revoke the Plan of Dissolution, as the case may be. If you fail to return your proxy card(s) and fail to vote at the special meeting, the effect will be the same as a vote against the proposal to approve the merger and/or the proposal to revoke the Plan of Dissolution, as the case may be. RETURNING THE PROXY CARD(S) DOES NOT DEPRIVE YOU OF YOUR RIGHT TO ATTEND THE SPECIAL MEETING AND VOTE YOUR SHARES IN PERSON.

Please do not send your Footstar common stock certificates at this time. If the merger is completed, you will receive written instructions for exchanging your Footstar stock certificates for cash.

Sincerely,

/s/ Jonathan M. Couchman

Jonathan M. Couchman
President and Chief Executive Officer

Mahwah, New Jersey

This proxy statement is dated [______], 2011 and is first being mailed to stockholders of Footstar on or about [______], 2011.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved this transaction, passed upon the merits or fairness of this transaction, or passed upon the adequacy or accuracy of the information contained in this proxy statement. Any representation to the contrary is a criminal offense.

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FOOTSTAR, INC.
933 MACARTHUR BLVD.
MAHWAH, NEW JERSEY 07430
(201) 934-2000

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON [_________], 2011

Notice is hereby given that a special meeting of the stockholders of Footstar, Inc. ("Footstar"), will be held on [_________], 2011 at 10:00 a.m., local time, at the offices of Olshan Grundman Frome Rosenzweig & Wolosky LLP located at Park Avenue Tower, 65 East 55th Street, New York, New York 10022 for the following purposes:

1. To consider and vote upon a proposal to revoke the Amended Plan of Complete Dissolution and Liquidation of Footstar, Inc. (the "Plan of Dissolution");

2. Subject to the approval of the first Proposal, to consider and vote upon a proposal to adopt and approve the Agreement and Plan of Merger (the "Partial Cash-Out Merger Agreement"), dated as of February 14, 2011, by and among Footstar and Footstar Acquisition, Inc. ("Acquisition") pursuant to which, among other things, Acquisition will be merged with and into Footstar, with Footstar being the surviving corporation, upon the terms and subject to the conditions of the Partial Cash-Out Merger Agreement described in the accompanying proxy statement (the "Partial Cash-Out Merger");

3. To consider and vote upon a motion to adjourn the special meeting for the purpose of soliciting additional proxies, if necessary; and

4. To consider, act upon and transact such other business as may properly come before the special meeting or any adjournments or postponements thereof.

The proposals are described in detail in the accompanying proxy statement and the appendices thereto. You are urged to read these materials very carefully and in their entirety before deciding how to vote. In particular, you should consider the discussion in the section of this proxy statement entitled "Special Factors."

The board of directors of Footstar has fixed the close of business on [_________], 2011 as the record date for determining the stockholders entitled to notice of and to vote at the special meeting on the proposal to approve the Partial Cash-Out Merger (the "Going Private Record Date"). In accordance with Delaware law, May 5, 2009 has been fixed as the record date for determining the stockholders entitled to notice of and to vote at the special meeting on the proposal to revoke the Plan of Dissolution (the "Dissolution Record Date"). Only holders of record of shares of Footstar common stock at the close of business on the respective record date for each proposal are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements thereof. The affirmative vote by holders of a majority of the voting power of Footstar common stock entitled to vote at the special meeting with respect to the proposal to approve the Partial Cash-Out Merger is required to adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger. The affirmative vote by holders of a majority of the voting power of Footstar common stock entitled to vote at the special meeting with respect to the proposal to revoke the Plan of Dissolution is required to revoke the Plan of Dissolution. At a special meeting held on May 5, 2009, Footstar's stockholders adopted and approved the Plan of Dissolution. In order to consummate the Partial Cash-Out Merger with Acquisition, Footstar must first revoke the Plan of Dissolution, which, in accordance with Delaware law, requires the approval of the stockholders of record as of the Dissolution Record Date, the date Footstar's stockholders adopted the Plan of Dissolution. Accordingly, the approval of the proposal to approve the Partial Cash-Out Merger is subject to the approval of the proposal to revoke the Plan of Dissolution.

After careful consideration, the board of directors of Footstar unanimously determined that the Partial Cash-Out Merger is advisable, fair to and in the best interests of Footstar's unaffiliated stockholders, including both unaffiliated continuing stockholders and unaffiliated cashed-out stockholders, and has adopted the Partial Cash-Out Merger Agreement and, accordingly, recommends that stockholders of record as the Going Private Record Date vote "FOR" adoption of the Partial Cash-Out Merger Agreement and stockholders of record as of the Dissolution Record Date vote "FOR" the proposal to revoke the Plan of Dissolution.

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Your vote is very important, regardless of the number of shares of Footstar common stock you own. Please vote your shares as soon as possible to ensure that your shares are represented at the special meeting. To vote your shares, you must complete and return the enclosed proxy card(s).

If you are a holder of record, you may also cast your vote in person at the special meeting. If you are a holder of record as the Going Private Record Date, you will find enclosed a proxy card to vote on that proposal. To adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card. If you are a holder of record as of the Dissolution Record Date, you will find enclosed a proxy card to vote on that proposal. To approve the proposal to revoke the Plan of Dissolution you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card.

If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. If you do not instruct your broker or bank on how to vote, it will have the same effect as voting against the proposal to approve the Partial Cash-Out Merger and/or the proposal to revoke the Plan of Dissolution, as the case may be.

All holders of our common stock have the right under Delaware law to demand an appraisal of their shares and to have a judicial determination of the fair value of their shares. These rights, generally known as appraisal rights, are described in detail in the proxy statement accompanying this notice. In addition, a copy of Section 262 of the Delaware General Corporation Law, which governs appraisal rights, is attached as Appendix C to this proxy statement. We urge you to read both the applicable section of the proxy statement and the statutory provisions carefully. If you wish to demand an appraisal of your shares, you must strictly comply with the statutory requirements.

By Order of the Board of Directors,

Jonathan M. Couchman
President and Chief Executive Officer

Mahwah, New Jersey
[___________], 2011

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SUMMARY TERM SHEET

The following summary term sheet, together with the "Questions and Answers About the Special Meeting, the Partial Cash-Out Merger and the Proposal to Revoke the Plan of Dissolution" following this summary term sheet, highlight selected information from this proxy statement about our proposed Partial Cash-Out Merger, the proposal to revoke the Amended Plan of Complete Dissolution and Liquidation of Footstar, Inc. (the "Plan of Dissolution") and the special meeting. This summary term sheet and the question and answer section may not contain all of the information that is important to you. To better understand, and for a more complete description of, the Partial Cash-Out Merger, the proposal to revoke the Plan of Dissolution, and the special meeting, you should carefully read this entire document and all of its appendices before you vote. For your convenience, we have directed your attention in parentheses to the location in this proxy statement where you can find a more complete discussion of each item listed below.

As used in this proxy statement, "Footstar," "we," "our," and "us" refer to Footstar, Inc. and all of its subsidiaries, the term "Acquisition" refers to Footstar Acquisition, Inc., the term "Partial Cash-Out Merger Agreement" refers to the Agreement and Plan of Merger dated as of February 14, 2011, as amended, by and among Footstar and Acquisition, the term "Partial Cash-Out Merger" refers to the proposed merger between Footstar and Acquisition pursuant to the Partial Cash-Out Merger Agreement and described herein and the term "common stock" or "common shares" refers to the issued and outstanding common shares of Footstar common stock, par value $0.01 per share.

The Parties (see page [__])

Footstar, Inc.
933 MacArthur Blvd.
Mahwah, New Jersey 07430

Footstar, Inc., a Delaware corporation, is a holding company that is currently winding down pursuant to the Plan of Dissolution, which was adopted by Footstar's stockholders on May 5, 2009. The proposal to revoke the Plan of Dissolution will, if approved by stockholders, authorize Footstar to file a certificate of revocation of dissolution with the Secretary of State of the State of Delaware which, at the effective time thereof, cause the revocation of the Plan of Dissolution. The phone number of Footstar's principal executive office is (201) 934-2000 ext. 5.

On January 3, 2011, CPEX Pharmaceuticals, Inc., a Delaware corporation ("CPEX"), FCB I Holdings Inc., a Delaware corporation ("NewCo") and FCB I Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of NewCo ("Merger Sub"), entered into an Agreement and Plan of Merger (the "CPEX Transaction Agreement"). On April 5, 2011, the transaction was consummated, and Merger Sub merged with and into CPEX (the "CPEX Transaction"), and CPEX became a wholly owned subsidiary of NewCo and an indirectly, majority-owned subsidiary of Footstar.

CPEX is a wholly owned subsidiary of NewCo, which is owned 80.5% by Footstar Corporation, a Texas corporation ("Footstar Corp"), and 19.5% by an unaffiliated investment holding company (the "19.5% Stockholder"). Footstar Corp is a wholly owned subsidiary of Footstar. In exchange for their respective 80.5% and 19.5% ownership of NewCo, Footstar Corp and the 19.5% Stockholder provided approximately $3.2 million and approximately $0.8 million, respectively, in equity financing to fund the CPEX Transaction.

See "SPECIAL FACTORS – Transaction with CPEX" for a more complete description of the CPEX Transaction Agreement.

Footstar Acquisition, Inc.
933 MacArthur Blvd.
Mahwah, New Jersey 07430

Footstar Acquisition, Inc., a Delaware corporation and a wholly owned subsidiary of Footstar, was formed solely for the purpose of engaging in the transactions contemplated by the Partial Cash-Out Merger Agreement. Acquisition has not conducted any significant activities other than those incident to its approval and execution of the Partial Cash-Out Merger Agreement and related documents. Acquisition has no material assets or liabilities, other than its rights and obligations under the Partial Cash-Out Merger Agreement, and has no operations.

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The Special Meeting (see page [__])

At the special meeting, stockholders of record as of [_________], 2011 (the "Going Private Record Date") are being asked to vote to approve the proposal to approve the Partial Cash-Out Merger of Acquisition with and into Footstar, with Footstar continuing as the surviving corporation, and, in accordance with Delaware law, stockholders of record as of May 5, 2009 (the "Dissolution Record Date") are being asked to approve the proposal to revoke the Plan of Dissolution. The Plan of Dissolution was approved and adopted by Footstar's stockholders on May 5, 2009. In order to consummate the Partial Cash-Out Merger, Footstar must first revoke the Plan of Dissolution in accordance with Section 311 of the Delaware General Corporation Law (the "DGCL"). Accordingly, the approval of the proposal to approve the Partial Cash-Out Merger is subject to the approval of the proposal to revoke the Plan of Dissolution.

The Partial Cash-Out Merger Agreement (see page [__])

Under the Partial Cash-Out Merger Agreement, Acquisition will merge with and into Footstar, with Footstar to remain as the surviving corporation. We have attached a copy of the Partial Cash-Out Merger Agreement as Appendix A to this proxy statement. We encourage you to read the Partial Cash-Out Merger Agreement carefully because it is the legal document that governs the Partial Cash-Out Merger. Under the terms of the Partial Cash-Out Merger Agreement, if the Partial Cash-Out Merger is completed:

- those of you owning fewer than 500 shares of our common stock in record form in any discrete account as of the effective time of the Partial Cash-Out Merger will receive a cash payment of $0.95 per share, without interest (currently only approximately 0.5% of our shares are held by stockholders holding fewer than 500 shares in record form);

- those of you owning 500 or more shares of our common stock in record form in any discrete account as of the effective time of the Partial Cash-Out Merger will continue to hold their shares; and

- our officers and directors at the effective time of the Partial Cash-Out Merger will be our officers and directors immediately after the Partial Cash-Out Merger.

Throughout this proxy statement, when we refer to the small stockholders or cashed-out stockholders we are referring to record holders of fewer than 500 shares of our common stock. In addition, when we refer to continuing stockholders or remaining stockholders, we are referring to record holders of 500 or more shares.

If you hold shares of our common stock in street name, your broker, bank or other nominee is considered the stockholder of record with respect to those shares and not you. It is possible that the bank, broker or other nominee also holds shares for other beneficial owners of our common stock and therefore may hold 500 or more total shares in record form even if your street name shares total less than 500.

Footstar does not intend to effect the Partial Cash-Out Merger at the beneficial holder level. Accordingly, stockholders holding fewer than 500 shares of our common stock in street name through a nominee (such as a bank or broker) will not be cashed-out in the Partial Cash-Out Merger if their nominee holds a total of 500 or more shares in record form even if your street name shares total less than 500. If you hold fewer than 500 shares of common stock in street name and want to have your shares cashed out in the Partial Cash-Out Merger, you should instruct your nominee to transfer your shares into a record account in your name prior to 5 p.m. on the last business day prior to the effective time of the Partial Cash-Out Merger. In any event, if you hold your shares of our common stock in street name, we encourage you to contact your bank, broker or other nominee about the effect of the Partial Cash-Out Merger on your shares.

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Effect of the Partial Cash-Out Merger (see page [__])

As a result of the Partial Cash-Out Merger:

- following the Partial Cash-Out Merger, we intend to eliminate registration of our common shares under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and cease filing periodic reports under the Exchange Act, which means that price quotations for our common shares will no longer be available on the OTC Bulletin Board. Accordingly, the Partial Cash-Out Merger is considered a "going private" transaction;

- the number of our issued and outstanding shares will decrease from 24,183,897 to approximately [24,033,897];

- cashed-out stockholders will no longer have an interest in or be a stockholder of Footstar and, therefore, they will not be able to participate in any of our future earnings and growth;

- we estimate that the number of record stockholders will be reduced from approximately [2,600] to approximately 200; and

- the percentage of ownership of our common stock beneficially held by our current officers and directors as a group (including shares subject to currently exercisable options) will not change.

Reasons for the Partial Cash-Out Merger (see page [__])

The requirements of being a publicly traded company and complying with the federal securities laws are expensive. We anticipate that deregistration will enable us to save significant accounting, legal and administrative expenses relating to our public disclosure and reporting requirements under the Exchange Act. Accordingly, the board of directors believes that it is in the best interest of Footstar and our stockholders to complete the Partial Cash-Out Merger with Acquisition. In addition, since only approximately 0.5% of our shares are held by record stockholders owning less than 500 shares, the Partial Cash-Out merger will impact only a minimal amount of outstanding shares. Accordingly, the Partial Cash-Out Merger will likewise have a minimal effect on the voting power of continuing stockholders, and affiliated stockholders will realize a less than 1% increase in their aggregate voting power. In addition, cashed-out stockholders who wish to participate in future earnings and growth of Footstar, if any, may increase the number of shares they hold to 500 or more if they wish to remain stockholders of Footstar after the Partial Cash-Out Merger.

Fairness of the Partial Cash-Out Merger (see page [__])

The board of directors has unanimously determined that the terms of the Partial Cash-Out Merger and the Partial Cash-Out Merger Agreement are advisable, fair to and in the best interests of Footstar stockholders, including unaffiliated cashed-out stockholders and unaffiliated continuing stockholders. The board of directors considered a number of factors, as more fully described under "Special Factors—Background of the Partial Cash-Out Merger" and "—Reasons for the Board's Recommendation," in making its recommendation.

The board of directors believes that the Partial Cash-Out Merger, the Partial Cash-Out Merger Agreement and the related transactions are substantively and procedurally fair to and in the best interests of the Footstar stockholders, including unaffiliated stockholders, for all of the reasons set forth herein. See "Special Factors—Reasons for the Board's Recommendation." In reaching its conclusions regarding fairness, the board of directors considered the interests of both record holders of fewer than 500 of our shares who will receive $0.95 per share in cash for their shares, and record holders of 500 or more of our shares who will remain stockholders after Footstar deregisters from its reporting obligations under the Exchange Act.

The board of directors of Footstar has determined that the minimum number of shares stockholders need to hold in order to not be cashed out in the Partial Cash-Out Merger is 500. Footstar believes that after cashing out stockholders who hold fewer than 500 shares, it will be eligible for deregistration of its common stock and, upon such deregistration, would no longer be subject to the filing requirements of the Exchange Act. The board considered several different thresholds and believes a cash-out threshold of 500 shares is an appropriate threshold because, once the Partial Cash-Out Merger is consummated, Footstar will be able to achieve its objective of deregistering from the Exchange Act filing requirements while at the same time impacting only approximately 0.5% of Footstar's outstanding shares.

With respect to cashed-out Footstar stockholders, the board of directors considered, among other things, the fact that the cashed-out stockholders will not be able to participate in the future earnings and growth of Footstar, if any. However, the board of directors believes that these factors are more than offset by the benefits to the cashed-out stockholders, including (1) that the Partial Cash-Out Merger consideration of $0.95 per share represents a premium of 5% over the trailing average of the closing price of our common stock for the 20 trading days prior to February 14, 2011, the date of our public announcement of the execution of the Partial Cash-Out Merger Agreement, (2) the value presented by the opportunity to realize a disposition of an otherwise relatively small investment without incurring brokerage commissions or fees and (3) that stockholders who would otherwise be cashed out but desire to retain their equity interest in Footstar after the Partial Cash-Out Merger can increase the number of shares they hold to 500 shares or more prior to the effective time. To the extent that any of the stockholders holding the approximately 0.5% of our shares which would be cashed out want to retain their equity interest in Footstar, Footstar believes that there is sufficient trading volume to ensure that such stockholders can purchase a sufficient number of shares to continue as Footstar stockholders. See “Special Factors—Purpose of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation.”

With respect to continuing Footstar stockholders, the board of directors considered, among other things, the adverse effect of the loss of a public trading market for the common stock, the lack of publicly available information on Footstar when it ceases to file Exchange Act reports, that Footstar will no longer be subject to the provisions of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) when it terminates its Exchange Act registration and the reduced cash balance resulting from the transaction costs for the Partial Cash-Out Merger. However, the board of directors believes that these factors are more than offset by the benefits to the remaining stockholders created by the lower expenses and other benefits of becoming a non-reporting company. See “Special Factors—Purpose of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation.”

Transaction with CPEX (see page [__])

On January 3, 2011, CPEX, NewCo and Merger Sub entered into the CPEX Transaction Agreement. On April 5, 2011, the transaction was consummated, and Merger Sub merged with and into CPEX (the “CPEX Transaction”), and CPEX became a wholly owned subsidiary of NewCo and an indirectly, majority-owned subsidiary of Footstar.

CPEX is a wholly owned subsidiary of NewCo, which is owned 80.5% by Footstar Corp, and 19.5% by the 19.5% Stockholder. Footstar Corp is a wholly owned subsidiary of Footstar. In exchange for their respective 80.5% and 19.5% ownership of NewCo, Footstar Corp and the 19.5% Stockholder provided approximately $3.2 million and approximately $0.8 million, respectively, in equity financing to fund the CPEX Transaction.

See “SPECIAL FACTORS – Transaction with CPEX” for a more complete description of the CPEX Transaction Agreement.

Vote Required to Approve the Partial Cash-Out Merger (see page [__])

The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of the Going Private Record Date is required to adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger. Our officers and directors collectively own or control an aggregate of 11,649,159 shares of our common stock, representing in the aggregate approximately 48.2% of the total number of votes entitled to vote on the proposal to approve the Partial Cash-Out Merger. Our officers and directors have indicated to Footstar that they intend to vote their shares in favor of the proposal to approve the Partial Cash-Out Merger.

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Financing (see page [__])

Footstar will pay the Partial Cash-Out Merger consideration with cash on hand. Approximately $142,500 will be required to pay the aggregate cash Partial Cash-Out Merger consideration to our cashed-out stockholders and we estimate expenses in connection with the Partial Cash-Out Merger will be $100,000.

Conditions to the Completion of the Partial Cash-Out Merger (see page [__])

Before we complete the Partial Cash-Out Merger, a number of closing conditions must be satisfied or waived. The conditions to the obligations of each party to complete the Partial Cash-Out Merger include, among others:

- The proposal to revoke the Plan of Dissolution be approved at the special meeting by the holders of a majority of the voting power of our outstanding common stock as of the Dissolution Record Date.

- The Partial Cash-Out Merger Agreement be adopted and approved at the special meeting by the holders of a majority of the voting power of our outstanding common stock as of the Going Private Record Date.

- Regulatory approval from governmental entities which shall have been delivered and obtained and no court or other governmental entity has issued an order to enjoin the transaction.

Other than the clearance of this proxy statement and other related filings by the Securities and Exchange Commission (the “SEC”), the filing of each of the certificate of revocation of the Plan of Dissolution and certificate of merger for the Partial Cash-Out Merger with the Secretary of State of the State of Delaware, there are no regulatory approvals required for completion of the Partial Cash-Out Merger.

Material U.S. Federal Income Tax Consequences (see page [__])

Generally, for United States federal income tax purposes, cashed-out stockholders will be treated as if they sold their common stock for the cash received in the Partial Cash-Out Merger. Each stockholder will recognize taxable gain or loss equal to the difference between the amount of cash received and the stockholder’s adjusted tax basis in the Footstar common stock exchanged. Stockholders who do not receive cash in the Partial Cash-Out Merger should not be subject to taxation as a result of the Partial Cash-Out Merger. See “Proposal to Approve the Partial Cash-Out Merger—Material U.S. Federal Income Tax Consequences” beginning on page [__]. THE TAX CONSEQUENCES TO YOU RESULTING FROM THE PARTIAL CASH-OUT MERGER WILL DEPEND ON CIRCUMSTANCES SPECIFIC TO YOUR SITUATION. TO REVIEW THE MATERIAL TAX CONSEQUENCES IN GREATER DETAIL, PLEASE READ THE DISCUSSION UNDER “PROPOSAL TO APPROVE THE PARTIAL CASH-OUT MERGER—MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES.” You should consult your personal tax advisors for a full understanding of the tax consequences of the Partial Cash-Out Merger to you.

Appraisal Rights (see page [__])

Holders of our common stock may seek, under Section 262 (“Section 262”) of the DGCL, judicial appraisal of the fair value of their shares by the Delaware Court of Chancery. This value could be more or less than or the same as the $0.95 per share Partial Cash-Out Merger consideration for our common stock being paid to cashed-out stockholders. This right to appraisal is subject to a number of restrictions and technical requirements. Generally, in order to properly demand appraisal rights, among other things:

- you must not vote in favor of the proposal to adopt and approve the Partial Cash-Out Merger Agreement and the Partial Cash-Out Merger;

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- you must make a written demand to Footstar for appraisal in compliance with the DGCL before the vote on the proposal to adopt and approve the Partial Cash-Out Merger Agreement and the Partial Cash-Out Merger at the special meeting; and

- you must hold your shares of record continuously from the time of making a written demand for appraisal though the effective time of the Partial Cash-Out Merger.

Merely voting against the Partial Cash-Out Merger Agreement and the Partial Cash-Out Merger will not preserve your right to appraisal under Delaware law. Also, because a submitted proxy not marked “against” or “abstain” will be voted “for” the proposal to adopt the Partial Cash-Out Merger Agreement, the submission of a proxy not marked “against” or “abstain” will result in the waiver of appraisal rights. If you hold shares in the name of a broker or other nominee, you must instruct your nominee to take the steps necessary to enable you to demand appraisal for your shares. If you or your nominee fails to follow all of the steps required by Section 262, you will lose your right of appraisal. Appendix C to this proxy statement contains the full text of Section 262, which relates to your right of appraisal. We encourage you to read these provisions carefully and in their entirety.

Revocation of Plan of Dissolution (see page [__])

At a special meeting held on May 5, 2009, Footstar’s stockholders adopted and approved the Plan of Dissolution. Subsequently, in August 2010, Footstar’s management and board of directors was made aware of an opportunity regarding a potential strategic transaction with CPEX. The board of directors believed that, notwithstanding the previous approval of the Plan of Dissolution, it was in Footstar’s best interest to explore a possible transaction with CPEX. As part of its assessment as to whether to pursue the CPEX Transaction, the board of directors also reevaluated whether it continued to be advisable to continue liquidating Footstar pursuant to the Plan of Dissolution. The board of directors determined that, regardless of whether the CPEX Transaction was consummated, it was advisable to suspend liquidating Footstar pursuant to the Plan of Dissolution and to pursue strategic transactions as a going concern. Since the consummation of the CPEX Transaction was time sensitive, Footstar’s board of directors believed that Footstar’s primary focus after the August 2010 meeting was to negotiate a transaction with CPEX and that after an agreement with CPEX was either entered into or discussions were terminated, it could focus more specifically on revoking the Plan of Dissolution.

If the proposal to revoke the Plan of Dissolution is approved, Footstar intends to revoke the Plan of Dissolution and permanently cease making liquidating distributions.

In order to consummate the Partial Cash-Out Merger with Acquisition, Footstar must first revoke the Plan of Dissolution. Accordingly, the approval of the proposal to approve the Partial Cash-Out Merger is subject to the approval of the proposal to revoke the Plan of Dissolution. The proposal to revoke the Plan of Dissolution will, if approved by stockholders, authorize Footstar to file a certificate of revocation of dissolution with the Secretary of State of the State of Delaware which will, at the effective time thereof, cause the revocation of the Plan of Dissolution. The form of certificate of revocation of dissolution is attached to this proxy statement as Appendix B.

If the proposal to revoke the Plan of Dissolution is not approved, it is expected that the current management of Footstar, under the direction of the board of directors, will recommence dissolving Footstar in accordance with the Plan of Dissolution. In addition, if the proposal to revoke the Plan of Dissolution is not approved, Footstar is considering, among other things, taking the actions necessary to spin-off the common stock of Footstar Corp, its wholly-owned subsidiary, as a special dividend or other distribution to Footstar stockholders so that Footstar stockholders can continue to participate in earnings resulting from the CPEX Transaction, if any, after Footstar is completely dissolved.

If the proposal to approve the Partial Cash-Out Merger and revoke the Plan of Dissolution are approved, we expect we will, as soon thereafter as reasonably practicable, revoke the Plan of Dissolution and effect the Partial Cash-Out Merger, subject to applicable law.

The Plan of Dissolution is attached as Annex A to Footstar's Proxy Statement on Schedule 14A filed with the SEC on April 6, 2009 and is incorporated herein by reference.

Vote Required to Approve the Proposal to Revoke the Plan of Dissolution (see page [__])

In accordance with the DGCL, stockholders entitled to vote on the proposal to revoke the Plan of Dissolution are stockholders of record as of the Dissolution Record Date, the effective date of the Plan of Dissolution. The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of the Dissolution Record Date is required to approve the proposal to revoke the Plan of Dissolution. Our officers and directors collectively owned or controlled an aggregate of 1,182,376 shares of common stock, or 5.5%, of the total number of votes entitled to vote on the proposal to revoke the Plan of Dissolution. Our officers and directors have indicated to Footstar that they intend to vote their shares in favor of the proposal to revoke the Plan of Dissolution.

Because of the prolonged period between the special meeting and the record date for the proposal to revoke the Plan of Dissolution, Footstar believes it may be difficult in some cases to locate or otherwise obtain the vote of stockholders entitled to vote on such proposal. Footstar does not believe that any difficulties in locating these stockholders will be unfair to unaffiliated stockholders as of the Dissolution Record Date who oppose a revocation of the Plan of Dissolution, since a failure to vote on the proposal to revoke the Plan of Dissolution, for whatever reason, will have the same effect as a vote against such proposal. To the extent that unaffiliated stockholders as of the Dissolution Record Date favor revoking the Plan of Dissolution, it is incumbent upon Footstar to locate such stockholders.

Recommendation of Our Board of Directors (see page [__])

After careful consideration of other factors relating to the advisability and fairness of the Partial Cash-Out Merger, the board of directors of Footstar unanimously determined that the Partial Cash-Out Merger is advisable, fair to and in the best interests of the Footstar stockholders, including unaffiliated cashed-out stockholders and unaffiliated continuing stockholders, and has adopted the Partial Cash-Out Merger Agreement and, accordingly, recommends that stockholders of record as of the Going Private Record Date vote "FOR" adoption of the Partial Cash-Out Merger Agreement and stockholders of record as of the Dissolution Record Date vote "FOR" the proposal to revoke the Plan of Dissolution.

Cautionary Statement Concerning Forward-Looking Information

This proxy statement includes statements that are not historical facts. These forward-looking statements are based on Footstar's current estimates and assumptions and, as such, involve uncertainty and risk. Forward-looking statements include the information concerning Footstar's possible or assumed future results of operations and also include those preceded or followed by the words "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "should," "pla and/or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- the completion of the Partial Cash-Out Merger and the termination of the registration of our common stock under the Exchange Act;
- the estimated number of shares to be cashed-out in the Partial Cash-Out Merger;
- the expected cost of the Partial Cash-Out Merger;
- the cost savings that we expect to realize following the termination of the registration of our common stock;
- the ability of continuing stockholders to sell their shares following the completion of the Partial Cash-Out Merger or to dispose of or acquire shares before the Partial Cash-Out Merger in order to be cashed out or avoid being cashed

out in the Partial Cash-Out Merger; and

- the expectation that our business and operations will continue following the Partial Cash-Out Merger substantially as presently conducted.

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These forward-looking statements are subject to a number of risks and uncertainties, and future events and actual results could differ materially from those described in, contemplated by or underlying these forward-looking statements. These risks and uncertainties include, but are not limited to:

- the occurrence of any event, change or other circumstance that could give rise to the abandonment of the Partial Cash-Out Merger;
- the inability to obtain stockholder approval of the proposal to approve the Partial Cash-Out Merger and/or the proposal to revoke the Plan of Dissolution;
- the outcome of any legal proceedings instituted against use relating to the Partial Cash-Out Merger or the deregistration of our common stock;
- the occurrence of any event, change or other circumstance that could prevent or delay us from terminating the registration of our common stock under the Exchange Act, including, without limitation, any failure of the Partial Cash-Out Merger to result in the reduction of the number of our stockholders of record to below 300;
- the amount of the costs, fees, expenses and charges that we incur in connection with the Partial Cash-Out Merger;
- the inability to realize the cost savings that we expect to achieve as a result of termination of the registration of our common stock; and
- risk factors detailed in our Annual Report on Form 10-K for the fiscal year ending January 1, 2011, which is hereby incorporated by reference into this proxy statement. The safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and identified in such Annual Report do not apply to any forward-looking statements that Footstar or Acquisition or any of their affiliates make in connection with the going-private transaction described in this proxy statement.

The forward-looking statements are not guarantees of future performance, events or circumstances, and actual results may differ materially from those contemplated by these forward-looking statements. For these reasons, you should not place undue reliance on any forward-looking statements included in this proxy statement.

Except to the extent required under the federal securities laws, we do not intend to update or revise the forward-looking statements to reflect circumstances arising after the date of the preparation of the forward-looking statements.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING, THE PARTIAL CASH-OUT MERGER AND THE PROPOSAL TO REVOKE THE PLAN OF DISSOLUTION

Q. Why did I receive this proxy statement?

A. We sent you this proxy statement and the enclosed proxy because our board of directors is soliciting your votes for use at a special meeting of stockholders. This proxy statement summarizes information that you need to know in order to cast an informed vote at the meeting. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card(s). We will begin sending this proxy statement, notice of special meeting and the enclosed proxy on or about [_______], 2011 to all stockholders entitled to vote on the proposals set forth herein.

Q. Where and when is the special meeting?

A. The special meeting of Footstar stockholders will be held on [_______], 2011 at 10:00 a.m., local time at the offices of Olshan Grundman Frome Rosenzweig & Wolosky LLP located at Park Avenue Tower, 65 East 55th Street, New York, New York 10022.

Q. What am I being asked to vote on?

A. Stockholders of record as of the Going Private Record Date are being asked to adopt the Partial Cash-Out Merger Agreement that we entered into with Acquisition and to approve the Partial Cash-Out Merger of Acquisition into Footstar, with Footstar as the surviving corporation. As a result of the Partial Cash-Out Merger, all stockholders owning fewer than 500 of our common shares in record form in any discrete account will receive $0.95 for each share that they own. In addition, all stockholders owning at least 500 of our common shares in record form in any discrete account will continue to hold their shares.

Stockholders of record as of the Dissolution Record Date are being asking to approve a proposal to revoke the Plan of Dissolution. In order to consummate the Partial Cash-Out Merger with Acquisition, Footstar must first revoke the Plan of Dissolution, which, in accordance with Delaware law, requires the approval of stockholders of record as of the Dissolution Record Date. Accordingly, the approval of the proposal to approve the Partial Cash-Out Merger is subject to the approval of the proposal to revoke the Plan of Dissolution.

Stockholders are also be asked to consider and vote upon a motion to adjourn the special meeting for the purpose of soliciting additional proxies, if necessary.

Q. Why is Footstar proposing the Partial Cash-Out Merger?

A. If approved, the Partial Cash-Out Merger will enable us to “go private” and thus terminate our obligations to file annual and periodic reports and make other filings with the SEC. The purpose behind the Partial Cash-Out Merger and the benefits of “going private” include:

- eliminating the costs associated with filing documents under the Exchange Act with the SEC; and
- reducing the direct and indirect costs of administering stockholder accounts and responding to stockholder requests.

As part of its assessment as to whether to pursue the CPEX Transaction, Footstar’s board of directors undertook a thorough analysis of Footstar’s operating cost structure and future plans. As a result of this analysis, the Footstar Board determined that (1) it is in the best interest of Footstar stockholders for Footstar to revoke its Plan of Dissolution and pursue strategic transactions as a going concern and (2) the benefits to the stockholders of remaining a reporting company are not justified by their costs under any foreseeable scenario.

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For smaller publicly traded companies, such as Footstar, pubic company costs represent a larger portion of our revenues than for larger public companies and the fixed costs of being an Exchange Act reporting company have continued to increase. After Footstar determined to propose that shareholders revoke the Plan of Dissolution and operate as a going concern, the potential long-term costs associated with being a public company became a significant operating cost because there was no longer a fixed time after which Footstar would finally dissolve and Footstar has limited capital resources. The Footstar board of directors believes that these costs will significantly increase as a result of the CPEX Transaction particularly because of the controls and procedures required by the Sarbanes-Oxley Act and Footstar believes that due, in part, to the leverage incurred by its subsidiaries as a result of the CPEX Transaction it needs to reduce its costs. In addition, the board of directors of Footstar determined that Footstar is not currently, and will not in the foreseeable future, realize the benefits normally presumed to result from being a reporting company, such as access to the public capital markets, due to the nature of our current and proposed future operations, including the consummation of the CPEX Transaction, as a result of which, Footstar, through its subsidiaries, is highly leveraged.

In light of this analysis, we believe that the increased cost savings to continuing stockholders from becoming a non-reporting company are in the best interest of Footstar and its stockholders. In addition, cashed-out stockholders who wish to participate in future earnings and growth of Footstar, if any, may increase the number of shares they hold to 500 or more if they wish to remain stockholders of Footstar after the Partial Cash-Out Merger.

Q. What does “going private” mean?

A. We will have fewer than 300 stockholders of record, will be eligible for and will file for deregistration of our Common Stock and, upon such deregistration, will become a non-reporting company. In this regard, we, by going private, will no longer have to file periodic reports, such as annual, quarterly and other reports, with the SEC.

Q: What vote is required for approval?

A. The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of the Going Private Record Date is required to adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger. The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of the Dissolution Record Date is required to approve the proposal to revoke the Plan of Dissolution. At the close of business on the Going Private Record Date, there were outstanding 24,183,897 shares of Footstar common stock entitled to vote on the proposal to approve the Partial Cash-Out Merger and at the close of business on the Dissolution Record Date, there were outstanding 21,577,835 shares of Footstar common stock entitled to vote on the proposal to revoke the Plan of Dissolution. Our officers and directors collectively own or control an aggregate of 11,649,159 shares of our common stock as of the Going Private Record Date, representing in the aggregate approximately 48.2% of the total number of votes entitled to vote on the proposal to approve the Partial Cash-Out Merger, and owned or controlled an aggregate of 1,182,376 shares of common stock as of the Dissolution Record Date, representing approximately 5.5% of the total number of votes entitled to vote on the proposal to revoke the Plan of Dissolution. Our officers and directors have indicated to Footstar that they intend to vote their shares in favor of the proposal to approve the Partial Cash-Out Merger and in favor of the proposal to revoke the Plan of Dissolution.

Q. How did the board of directors determine the cash-out price?

A. The board of directors considered recent and historical trades of the Footstar common stock. The common stock has traded since December 30, 2003 on the OTC Bulletin Board. That market has represented the principal outlet for stockholders who wished to dispose of shares of common stock. The board of directors viewed that market as a good indicator of what a willing buyer would pay to a willing seller, neither one of whom is under any compulsion to buy or sell, after considering such factors as their estimate of Footstar's value as a whole, its earnings and performance history, its prospects, the prospects of the industry as a whole, the announcement and execution of the CPEX Transaction Agreement, an assessment of the control parties and management of Footstar, and other factors that typically bear on a common stock purchase or sale decision. Accordingly, the board of directors determined that a cash-out price based on the historical market prices of Footstar's common stock would constitute a reasonably accurate method of determining the fair value of shares of common stock being cashed out in the Partial Cash-Out Merger. The board of directors determined to calculate the cash-out price as a price equal to the trailing average of the closing price of the common stock for the 20 trading days prior to February 14, 2011, the date of our public announcement of the execution of the Partial Cash-Out Merger Agreement, plus a premium of 5%. In addition, due to the CPEX Transaction, the board of directors determined that, in calculating an average historical closing price for the common stock, an average of closing prices during a period of time subsequent to the announcement of the CPEX Transaction would more accurately reflect the current fair value of the common stock because Footstar believes such prices are indicative of investors' assessment of the value of the CPEX Transaction on Footstar. This method resulted in a cash out price of $0.95 per share, which the board of directors determined was fair to unaffiliated stockholders being cashed out in the Partial Cash-Out Merger.

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Q. Did the board of directors receive a fairness opinion or otherwise hire a financial advisor in connection with the Partial Cash-Out Merger?

A: Footstar did not receive a report, opinion, or appraisal from an outside party as to the value of our common stock, or the fairness of the Partial Cash-Out Merger to stockholders who will receive cash in the Partial Cash-Out Merger, stockholders who will remain stockholders following the Partial Cash-Out Merger or unaffiliated or affiliated stockholders or Footstar, or otherwise engage a financial advisor in connection with the Partial Cash-Out Merger.

The independent members of the board of directors concluded that there were already sufficient procedural safeguards without the expense of retaining an independent fairness advisor, including (i) unaffiliated and affiliated stockholders would be treated the same in the Partial Cash-Out Merger and there are no divergent interest between affiliated and unaffiliated stockholders, (ii) any of such stockholders could change his or her stock holdings prior to the Effective Date, as described above, in order to either get cashed out in the Partial Cash-Out Merger or continue as a stockholder of Footstar following the Partial Cash-Out Merger and (iii) the Partial Cash-Out Merger was approved unanimously by all directors of Footstar who are not employees of Footstar and who will not have any continuing interest in or other relationship with Footstar as the surviving corporation (other than ownership of less than 2% each of outstanding common stock after the Partial Cash-Out Merger and continued service on the board of directors). In addition, the board of directors took into account the importance of preserving Footstar's cash position and completing the Partial Cash-Out Merger as expeditiously as practicable.

Q. How do I cast my vote?

A. If your shares are registered directly in your name with BNY Mellon Shareowner Services ("BNY Mellon"), you are considered, with respect to those shares, the stockholder of record, and these proxy materials were sent directly to you. As the stockholder of record, you may vote in person at the special meeting or by submitting a proxy for the special meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card(s) in the accompanying pre-addressed postage paid envelope.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial owner" of shares held "in street name," and these proxy materials have been forwarded to you by your broker or nominee which is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker how to vote and are also invited to attend the special meeting. However, as a beneficial owner, you are not the stockholder of record, and you may not vote these shares in person at the meeting unless you obtain a signed proxy from the stockholder of record giving you the right to vote the shares. Your broker or nominee has enclosed or provided a voting instruction card for you to use in directing the broker or nominee how to vote your shares.

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Q. Can I change my vote after I have delivered my proxy?

A. Yes. If you are a record holder, you can change your vote at any time before your proxy is voted at the special meeting by:

- delivering to the secretary of Footstar, as appropriate, a signed notice of revocation;
- granting a new, later-dated proxy, and if it is a written proxy, it must be signed and delivered to the respective Secretary of Footstar, as appropriate; or
- attending the special stockholders meeting and voting in person, however, your attendance alone will not revoke your proxy.

If your shares are held in a street name account, you must contact your broker, bank or other nominee to change your vote.

Q. What do I need to do now?

A. You should carefully read and consider the information contained in this proxy statement and complete, date and sign your proxy card(s) and return it in the enclosed addressed envelope as soon as possible so that your shares will be represented at the special meeting. If you are a holder of record as of the Going Private Record Date, you will find enclosed a proxy card to vote on that proposal. To adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card. If you are a holder of record as of the Dissolution Record Date, you will find enclosed a proxy card to vote on that proposal. To approve the proposal to revoke the Plan of Dissolution you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card. If your shares are held in a street name account, see the question entitled "What if I hold shares in 'street name'?" Your failure to vote in person or return your signed and dated proxy card will have the same effect as a vote "AGAINST" adoption of the Partial Cash-Out Merger Agreement and/or the proposal to revoke the Plan of Dissolution, as the case may be. If you return your signed and completed proxy card but check the mark "abstain," your proxy will have the same effect as a vote "AGAINST" adoption of the Partial Cash-Out Merger Agreement and/or the proposal to revoke the Plan of Dissolution, as the case may be.

Q. Should I send in my stock certificate now?

A. No. After the Partial Cash-Out Merger is completed, you will receive written instructions from the exchange agent on how to exchange your Footstar stock certificates for the Partial Cash-Out Merger consideration.

Q. What will I receive in the Partial Cash-Out Merger?

A. If you are a record holder owning fewer than 500 shares of our common stock in record form in any discrete account, each issued and outstanding common share held by you will be cancelled and converted into the right to receive $0.95 in cash, without interest. If you are a record holder owning 500 or more of our common shares, you will continue to own the same number of shares of Footstar common stock after the Partial Cash-Out Merger. If your shares are held in a street name account, see the question entitled "What if I hold shares in 'street name'?"

Q. What if I hold shares in "street name"?

A.

If you hold shares of our common stock in street name, your broker, bank or other nominee is considered the stockholder of record with respect to those shares and not you. It is possible that the bank, broker or other nominee also holds shares for other beneficial owners of our common stock and therefore may hold 500 or more total shares even if your street name shares total less than 500.

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Footstar does not intend to effect the Partial Cash-Out Merger at the beneficial holder level. Accordingly, stockholders holding fewer than 500 shares of our common stock in street name through a nominee (such as a bank or broker) will not be cashed-out in the Partial Cash-Out Merger if their nominee holds a total of 500 or more shares in record form even if your street name shares total less than 500. If you hold fewer than 500 shares of common stock in street name and want to have your shares cashed out in the Partial Cash-Out Merger, you should instruct your nominee to transfer your shares into a record account in your name prior to 5 p.m. on the last business day prior to the effective time of the Partial Cash-Out Merger. In any event, if you hold your shares of our common stock in street name, we encourage you to contact your bank, broker or other nominee about the effect of the Partial Cash-Out Merger on your shares.

Q. What happens if I own a total of 500 shares through a combination of record ownership in my name and one or more brokerage firms in street name?

A. If you hold 500 or more shares in a combination of record and street name accounts, you may nevertheless have your shares cashed-out. If you are in this situation and desire to remain our stockholder after the Partial Cash-Out Merger, we recommend that you transfer any shares held in street name into the same record name as your record shares prior to the effective time of the Partial Cash-Out Merger. To determine the Partial Cash-Out Merger's effect on any shares you hold in street name (and possible payment of the cash consideration), you should contact your broker, bank or other nominee.

Q. How will Footstar be operated after the Partial Cash-Out Merger?

A. After the Partial Cash-Out Merger and the deregistration of our common stock under the Exchange Act, we will be a non-reporting company. As a result of the CPEX Transaction, Footstar will need to assimilate CPEX into Footstar's operations. Footstar believes that while the CPEX Transaction resulted in the incurrence of significant debt by a Footstar subsidiary, the CPEX Transaction benefits Footstar because it resulted in the acquisition of a currently profitable business as evidenced by CPEX having net income of approximately $6.6 million for the fiscal year ended December 31, 2010. Footstar believes the Partial Cash-Out Merger will not have any effect upon the conduct of the CPEX business except that Footstar will achieve significant cost savings as a result of no longer being a reporting company and Footstar's management will be better able to focus on operating the CPEX business without the distractions of complying with the Exchange Act reporting requirements and other Exchange Act obligations. As a result of the Partial Cash-Out Merger, our stockholders who receive cash for their shares in the Partial Cash-Out Merger will no longer have a continuing interest as stockholders of Footstar and will not share in any of Footstar's future earnings and growth, if any.

If the proposal to approve the Partial Cash-Out Merger and revoke the Plan of Dissolution are approved, we expect we will, as soon thereafter as reasonably practicable, revoke the Plan of Dissolution and effect the Partial Cash-Out Merger, subject to applicable law.

Q. When do you expect the Partial Cash-Out Merger to be completed?

A. We are working to complete the Partial Cash-Out Merger as quickly as possible. We currently expect to complete the Partial Cash-Out Merger in the second calendar quarter of 2011. However, we cannot predict the exact timing of the Partial Cash-Out Merger.

Q. May I buy additional shares in order to remain a stockholder of Footstar?

A. Yes. If you will be a cashed-out stockholder as a result of the Partial Cash-Out Merger and you want to continue to hold our common stock after the Partial Cash-Out Merger, you may do so by taking any of the following actions, if applicable, so that, in any case, you hold at least 500 shares of our common stock in a record account by 5 p.m. on the last business day before the effective date of the Partial Cash-Out Merger, which we expect will occur shortly after the special meeting:

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- purchasing a sufficient number of our shares on the open market and having them registered in your name so that you have at least 500 shares in record form;
- instructing your nominee to transfer at least 500 of your shares into a record account in your name; and/or
- consolidating your current holdings into a single record account so that you have at least 500 shares in record form.

You will have to act far enough in advance so that the purchase of our common shares and/or consolidation of your accounts containing our common stock is complete by 5 p.m. on the last business day immediately prior to the effective date of the Partial Cash-Out Merger.

Footstar believes that only approximately 0.5% of its outstanding shares (or [__] shares) will be impacted by the Partial Cash-Out Merger. Because of this small number, Footstar does not expect stockholders who wish to purchase additional shares to avoid being cashed out in the Partial Cash-Out Merger will experience significant difficulty in effecting such purchase on the OTC Bulletin Board even though, at times, there has been limited trading volume in Footstar's common stock. However, there can be no assurance that each individual stockholder wishing to effect such purchase will be able to do so.

If you hold shares of our common stock in street name, your broker, bank or other nominee is considered the stockholder of record with respect to those shares and not you. It is possible that the bank, broker or other nominee also holds shares for other beneficial owners of our common stock and therefore may hold 500 or more total shares in record form even if your street name shares total less than 500.

Footstar does not intend to effect the Partial Cash-Out Merger at the beneficial holder level. Accordingly, stockholders holding fewer than 500 shares of our common stock in street name through a nominee (such as a bank or broker) will not be cashed-out in the Partial Cash-Out Merger if their nominee holds a total of 500 or more shares in record form. If you hold fewer than 500 shares of common stock in street name and want to have your shares cashed out in the Partial Cash-Out Merger, you should instruct your nominee to transfer your shares into a record account in your name prior to 5 p.m. on the last business day prior to the effective time of the Partial Cash-Out Merger. In any event, if you hold your shares of our common stock in street name, we encourage you to contact your bank, broker or other nominee about the effect of the Partial Cash-Out Merger on your shares.

Q. Why is Footstar asking its stockholders to revoke the Plan of Dissolution?

A. In light of the acquisition of CPEX in April 2011, the board of directors believes it is advisable to suspend liquidating Footstar pursuant to the Plan of Dissolution. If the proposal to revoke the Plan of Dissolution is approved, Footstar intends to permanently cease making liquidating distributions.

Q. What will happen if the proposal to approve the Partial Cash-Out Merger and/or the proposal to revoke the Plan of Dissolution are not approved?

A. If the proposal to revoke the Plan of Dissolution is not approved, it is expected that the current management of Footstar, under the direction of the board of directors, will recommence dissolving Footstar in accordance with the Plan of Dissolution. In addition, if the proposal to revoke the Plan of Dissolution is not approved, Footstar is considering, among other things, taking the actions necessary to spin-off the common stock of Footstar Corp, its wholly-owned subsidiary, as a special dividend or other distribution to Footstar stockholders so that Footstar stockholders can continue to participate in earnings resulting from the CPEX Transaction, if any, after Footstar is completely dissolved.

If the proposal to approve the Partial Cash-Out Merger and revoke the Plan of Dissolution are approved, we expect we will, as soon thereafter as reasonably practicable, revoke the Plan of Dissolution and effect the Partial Cash-Out Merger, subject to applicable law.

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Q. Who can help answer my questions?

A. If you would like additional copies of this proxy statement (which we will provide without charge) or if you have questions about the Partial Cash-Out Merger or the special meeting, including the procedures for voting your shares, you should contact Jonathan M. Couchman, President and Chief Executive Officer, Footstar, Inc., 933 MacArthur Blvd., Mahwah, New Jersey 07430, telephone: (201) 934-2000 ext. 5, facsimile: (201) 327-2130.

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SUMMARY FINANCIAL INFORMATION

The following summary historical consolidated financial information presented below has been derived from our audited consolidated financial statements contained in our annual report on Form 10-K, as of and for the fiscal years ended January 1, 2011 and January 2, 2010. This data should be read in conjunction with the audited and unaudited consolidated financial statements and other financial information contained in Form 10-K and Forms 10-Q, respectively, including the notes thereto and which are incorporated by reference. More comprehensive financial information is included in such reports (including management's discussion and analysis of financial condition and results of operations) and the following information is qualified in its entirety by reference to such reports and all of the financial information and notes contained therein. Copies of such reports may be obtained from the SEC and Footstar. See the section entitled "Where Stockholders Can Find More Information" on page [_].

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FOOTSTAR, INC. and SUBSIDIARY COMPANIES

Consolidated Condensed Statements of Operations
For the Period January 4, 2009 to May 5, 2009 (Going Concern Basis)
(in millions, except per share amounts)

	For the period January 4, 2009 to May 5, 2009
Revenue	
Net Sales	$ -
Liquidation of inventory	2.5
Total Sales	2.5
Cost of revenue	-
Gross Profit	2.5
Store operating, selling, general and administrative expenses	6.5
Other Expense	(0.3)
Loss before income taxes	(3.7)
Income tax provision	-
Net Loss	$ (3.7)
Average common shares outstanding	
Basic & Diluted :	21.3
Loss per share:	
Basic & diluted :	$ (0.17)

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Consolidated Condensed Statements of Net Assets in Liquidation

January 1, 2011 and January 2, 2010 (Liquidation Basis)
(in millions, except for per share amounts)

	January 1, 2011	January 2, 2010
Current assets:		
Cash and cash equivalents	$ 8.7	$ 9.8
Prepaid expenses	1.6	5.1
Real Estate	6.2	6.2
Total current assets	16.5	21.1
Other assets	-	0.2
Total assets	16.5	21.3
Accounts Payable and Accrued Expenses	4.2	5.3
Total current liabilities	4.2	5.3
Other long term liabilities	2.5	6.0
Total liabilities	6.7	11.3
Net Assets in Liquidation	$ 9.8	$ 10.0
Common shares outstanding	24.2	21.6
Net assets in liquidation per common share	$ 0.40	$ 0.46

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Consolidated Statement of Changes in Net Assets in Liquidation
For the Periods May 6, 2009 through January 1, 2011
(Liquidation Basis)
($ in millions)

Shareholders' Equity at May 5, 2009	80.0
Liquidation basis adjustments:	
Adjust assets and liabilities to fair value	(1.2)
Accrue cost of liquidation	(10.0)
Net Assets in Liquidation May 5, 2009	68.8
Cash distribution to shareholders	(59.4)
Changes in liquidation accruals	
Accrued Costs of liquidation May 6, 2009 to January 2, 2010	(0.1)
Costs incurred May 6, 2009 to January 2, 2010	(1.3)
Decrease in State Income Tax	0.4
Federal Income Tax Receivable	1.1
Other cash proceeds received	0.5
Net Assets in Liquidation January 2, 2010	10.0
Other cash proceeds received	1.4
Changes in liquidation accruals	1.2
Stock issued in lieu of compensation	0.6
Cash distribution to shareholders	(3.4)
Net Assets in Liquidation January 1, 2011	$ 9.8

The consolidated financial statements for the period ended January 1, 2011 were prepared on the liquidation basis of accounting and for the period ended May 5, 2009 were prepared on the going concern basis of accounting, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. As a result of the shareholder' approval of the Plan of Dissolution, Footstar adopted the liquidation basis of accounting effective May 6, 2009. This basis of accounting is considered appropriate when, among other things, liquidation of a company is probable and the net realizable values of assets are reasonably determinable. Under this basis of accounting, assets are valued at their net realizable values and liabilities are stated at their estimated settlement amounts. Should the shareholders approve the proposal to revoke the Plan of Dissolution, Footstar will no longer follow the liquidation basis of accounting but rather change its method of accounting back to the going concern basis of accounting.

The conversion from the going concern to liquidation basis of accounting required management to make significant estimates and judgments. In order to record assets at estimated net realizable value and liabilities at estimated settlement amounts under the liquidation basis of accounting, Footstar recorded its assets and liabilities at fair value as of May 6, 2009, the date of adoption of the liquidation basis of accounting.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Basis of Pro Forma Presentation

The unaudited pro forma condensed combined statement of operations for the fiscal year ended January 1, 2011 reflects the adjustments necessary to present the historical Footstar, Inc. consolidated statement of operations on a going concern basis of accounting from a liquidation basis of accounting and then combines the going concern basis adjusted Footstar, Inc consolidated statement of operations for the year ended January 1, 2011 with the historical CPEX consolidated statement of operations for the year ended December 31, 2010, giving effect to the acquisition of CPEX by Footstar as if it had occurred on January 3, 2010. The unaudited pro forma condensed combined balance sheet reflects the adjustments necessary to present the historical Footstar, Inc. consolidated balance sheet on a going concern basis of accounting from a liquidation basis of accounting and then combines the going concern basis adjusted Footstar, Inc consolidated balance sheet at January 1, 2011 with the historical CPEX consolidated balance sheet at December 31, 2010, giving effect to the acquisition of CPEX by Footstar as if it had occurred on January 1, 2011. Additionally, these unaudited pro forma financial statements give effect to the financing obtained related to the CPEX Transaction, including the contribution to FCB I Holdings Inc. of the 19.5% Stockholder.

The unaudited pro forma condensed combined financial information provided herein does not purport to represent the results of operations or financial position of Footstar, Inc. that would have actually resulted had the acquisition of CPEX been completed as of the dates indicated, nor should the information be taken as indicative of the future results of operations or financial position of the combined company. The unaudited pro forma condensed combined financial statements do not reflect the impact of any potential operational efficiencies, cost savings or economies of scale that Footstar may achieve with respect to the combined operations of Footstar and CPEX.

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FOOTSTAR, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JANUARY 1, 2011

	Historical Footstar, Inc. *	Footstar, Inc. Adjustments		Footstar, Inc. Adjusted	Historical CPEX Pharmaceuticals Inc. *	Pro forma Adjustments		Pr
ASSETS								
Current Assets								
Cash & cash equivalents	$ 8,719,993	$ (150,000	)l	$ 8,569,993	$ 22,156,875	$ (12,155,190	)c	$ 15,
						780,000	e	
						(886,650	)h	
						(2,500,000	)f	
Restricted cash	-	-		-	-	2,500,000	f	2,5
Accounts receivable	-	-		-	6,427,593	-		6,4
Real Estate	6,172,500	-		6,172,500	-	-		6,1
Prepaid expenses	1,550,367	-		1,550,367	700,887	-		2,2
Short-tern deferred tax asset	-	-		-	305,668	(305,668	)m	-
Total current assets	16,442,860	$ (150,000	)	16,292,860	29,591,023	(12,567,508	)	33,
Non-current Assets								
Fixed assets	-	-		-	2,182,936	-		2,1
Intangible assets	-	-		-	1,663,679	70,897,056	g	72,
Notes receivable	-	-		-	326,918	-		326
Long-tern deferred tax asset	-	-		-	1,582,297	(1,582,297	)m	-
Deferred financing costs	-	-		-	-	886,650	h	886
Total non-current assets	-	-			5,755,830	70,201,409		75,
Total Assets	$ 16,442,860	$ (150,000	)	$ 16,292,860	$ 35,346,853	$ 57,633,901		$ 109
LIABILITIES AND STOCKHOLDER'S EQUITY								
Current Liabilities								
Accounts payable & accrued expenses	$ 4,164,757	$ (3,075,836	)i	$ 1,088,921	$ 2,141,860	$ 725,259 d		$ 3,9
Income taxes payable	-	-		-	1,534,982	-		1,5
Notes payable – Short-term	-	-		-	-	15,000,000	b	15,
Total current liabilities	4,164,757	(3,075,836	)	1,088,921	3,676,842	15,725,259		20,
Other Liabilities								
Other long-tern liabilities	2,495,335	(1,301,397	)j	1,193,938	-	-		1,1

Deferred tax liability	-	-	-	-	25,298,653 m	25,
Notes payable – Long-term	-	-	-	-	47,500,000 b	47,
Total other liabilities	2,495,335	(1,301,397)	1,193,938	-	72,798,653	73,
Total Liabilities	6,660,092	(4,377,233)	2,282,859	3,676,842	88,523,912	94,
EQUITY						
Stockholders’ equity						
Stockholders’ equity (deficit)	-	322,870 k	322,870	26,169	(26,169)a	322
Additional paid in capital	-	244,438,669 k	244,438,669	28,760,297	(28,760,297)a	244
Treasury stock	-	(234,978,771)k	(235,128,771)	-	-	(23
		(150,000)l				
Retained earnings	-	4,377,233	4,377,233	2,883,545	(2,883,545)a	4,3
Non-controlling interest	-	-	-	-	780,000 e	780
Total stockholders’ equity		14,010,001	14,010,001	31,670,011	(30,890,011)	14,
Net Assets in liquidation	9,782,768	(9,782,768)k	-	-	-	-
Total Liabilities and Stockholders’ Equity	$ -	$ (150,000)	$ 16,292,860	$ 35,346,853	$ 57,633,901	$ 109

* Derived from audited financial information (Historical Footstar, Inc. is as of 1/1/2011 and Historical CPEX is as of 12/31/10)

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FOOTSTAR, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JANUARY 1, 2011

	Historical Footstar, Inc. *	Footstar, Inc. Adjustments	Footstar, Inc. Adjusted	Historical CPEX Pharmaceuticals Inc. *	Pro forma Adjustments		Pro forma
Revenue	$ -	$ -	$ -	$ 23,297,017	$ -		$ 23,297,017
General and Administrative							
General & administrative expenses	-	2,348,462	2,348,462	16,286,014	414,196	r	19,048,672
Depreciation & amortization	-	-	-	702,907	4.726.470	o	5,429,377
Interest expense	-	61,400	61,400	2,148	10,799,858	p	10,863,406
Interest income	-	-	-	(101,611)	-		(101,611)
Income (loss) before Income Taxes	-	(2,409,862)	(2,409,862)	6,407,559	(15,940,524)		(11,942,827)
Benefit for income taxes	-	-	-	230,449	1,423,551	q	1,654,000
Net Income (loss) before non-controlling interest	-	(2,409,862)	(2,409,862)	6,638,008	(14,516,973)		(10,288,827)
Net income (loss) attributable to the Non-controlling interest	-	-	-	-	(1,536,398)	n	(1,536,398)
Net income (loss) attributable to controlling interest	$ -	$ (2,409,862)	$ (2,409,862)	$ 6,638,008	$ (12,980,575)		$ (8,752,429)
Net Loss per Common Share							
Basic & Diluted	$ -	$ -	$ (0.10)	$ -	$ -		$ (0.37)
Weighted average common shares							

Outstanding						
Basic & Diluted	-	-	23,882,917	-	-	23,882,917

* Derived from audited financial information (Historical Footstar, Inc. is for the year ended 1/1/11 and Historical CPEX is for the year ended 12/31/10)

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Notes to Unaudited Pro Forma Condensed Financial Statements

1. Purchase Price

The following table summarizes the components of the total consideration determined for accounting purposes under ASC Topic 805 for these pro-forma condensed combined financial statements and reflect the allocation of the purchase consideration based on managements estimate of the fair value of the CPEX Pharmaceuticals Inc assets and liabilities acquired assuming acquired as of January 1, 2011.

Components of consideration:	
Cash paid to CPEX Pharmaceuticals, Inc. shareholders at closing	$ 75,380,449
CPEX liabilities assumed by Footstar	3,676,842
Gross consideration at closing	79,057,291
Less: net fair value of non-intangible acquired assets	(8,160,235)
Allocation to Intangible Asset	70,897,056

Allocation of consideration	
Cash	$ 22,156,875
Accounts receivable	6,754,511
Tangible fixed assets	2,182,936
Fair value of non-intangible acquired assets	2,364,566
Other specific intangible asset specifically recorded in acquisition	70,897,056
Net Deferred tax liability	(25,298,653)
Gross assets	79,057,291
Less: current liabilities	(3,676,842)
Net assets to be acquired	$ 75,380,449

Direct acquisition costs, consisting of investment banking fees and legal fees directly related to the acquisition, are expensed as period costs, and are not capitalized. Financing costs amounted to $886,650. These costs were not expensed as acquisition costs, but treated as loan origination costs and are included in Deferred financing costs.

The excess of the purchase price over the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to Intangible Assets. The allocation of consideration is subject to change in the event that assumptions used in estimating fair values should change. Intangible assets are expected to be amortized using a straight-line method over its useful life.

2. Pro-Forma Adjustments

Explanations of the adjustments to the unaudited pro-forma condensed combined balance sheet as of January 1, 2011 are as follows:

a. To eliminate CPEX Pharmaceuticals Inc historical equity accounts
b. To record Notes Payable for CPEX Pharmaceuticals Inc acquisition - $64.0 million obligation, net of $1.5 million Original Issue Discount
c. To record cash disbursed for CPEX Pharmaceuticals Inc acquisition, net of debt proceeds
d. To record portion of the purchase price as yet unpaid
e. To record 19.5% shareholders Non-controlling interest in FCB I Holdings Inc.
f. To record Interest Reserve as restricted cash
g.

To record the estimated fair value of the acquired intangible asset which represents the contractual right to acquire future cash flows pursuant to a royalty definitive agreement in place. Due to the nature of the contract, this asset has a life of 180 months, which is considered in the amortization of the 2010 pro forma adjustments in the statement of operations.

h. To record the deferred financing costs
i. To reverse Footstar Liquidation Accruals Short-term
j. To reverse Footstar Liquidation Accruals Long-term
k. To adjust Footstar Net Assets in Liquidation to Going Concern Accounting
l. To record costs of going private, assuming transaction is consummated at terms indicated in proxy
m. To record net tax liability related to Intangible asset

Explanations of the adjustments included in the unaudited pro-forma condensed combined statement of operations for the year ended January 1, 2011 are as follows:

n. To record 19.5% shareholders Non-controlling interest in FCB I Holdings Inc..
o. To record additional Intangible asset amortization - $70,897,056 straight-line amortized over 180 months.
p. To record interest expense on Notes Payable - $10,402,250 interest expense. $250,000 Original Issue Discount and $147,608 deferred financing fee expense straight-line over 72 months.
q. To record tax benefit from amortization of Intangible asset
r. To record the estimated transaction costs

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THE SPECIAL MEETING

General

This proxy statement, together with the accompanying notice of special meeting and form of proxy, is being furnished to the stockholders of Footstar as part of the solicitation of proxies by Footstar's board of directors for use at the special meeting of stockholders to be held at the offices of Olshan Grundman Frome Rosenzweig & Wolosky LLP located at Park Avenue Tower, 65 East 55th Street, New York, New York 10022 on [_______], 2011, beginning at 10:00 a.m. local time, or at any adjournments or postponements thereof.

Matters to be Considered at the Special Meeting

At the special meeting, stockholders of record as of the Dissolution Record Date are being are being asked to vote upon the proposal to revoke the Plan of Dissolution and, subject to the approval of the first Proposal, stockholders of record as of the Going Private Record Date are being asked to vote upon the proposal to adopt the Partial Cash-Out Merger Agreement, pursuant to which Acquisition will be merged with and into Footstar, with Footstar being the surviving corporation, and any other matters that may properly come before the meeting. Stockholders are also being asked to consider and vote upon a motion to adjourn the special meeting for the purpose of soliciting additional proxies, if necessary.

If any other matters are properly presented for consideration at the special meeting, each of Jonathan M. Couchman and Eugene I. Davis, who will be acting as proxies for the special meeting, will have the discretion to vote on those matters for shares that have been voted by proxy using their judgment with respect to those matters unless authority to do so is withheld on the proxy card.

Recommendation of the Footstar Board of Directors

After careful consideration, the board of directors of Footstar unanimously determined that the Partial Cash-Out Merger is advisable, fair to and in the best interests of the Footstar stockholders and has adopted the Partial Cash-Out Merger Agreement and, accordingly, recommends that stockholders of record as of Going Private Record Date vote "FOR" adoption of the Partial Cash-Out Merger Agreement and stockholders of record as of the Dissolution Record Date "FOR" the proposal to revoke the Plan of Dissolution. In making its recommendation, the board of directors considered a variety of factors, which are described herein.

Record Date and Voting Information

The board of directors of Footstar has fixed the close of business on the Going Private Record Date as the record date for determining the stockholders entitled to notice of and to vote at the special meeting on the proposal to approve the Partial Cash-Out Merger. In accordance with the DGCL, stockholders entitled to vote on the proposal to revoke the Plan of Dissolution are stockholders of record as the Dissolution Record Date, the effective date of the Plan of Dissolution. At the close of business on the Going Private Record Date, there were outstanding 24,183,897 shares of Footstar common stock entitled to vote on the proposal to approve the Partial Cash-Out Merger and at the close of business on the Dissolution Record Date there were outstanding 21,577,835 shares of Footstar common stock entitled to vote on the proposal to revoke the Plan of Dissolution. A list of our stockholders will be available for review at our executive offices during regular business hours for a period of 10 days before the special meeting.

The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of the Going Private Record Date, the record date for the proposal to adopt the Partial Cash-Out Merger Agreement, is required to adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger. Each holder of record of common stock on the Going Private Record Date will be entitled to one vote for each share held on the proposal to adopt the Partial Cash-Out Merger Agreement. In accordance with Delaware law, the affirmative vote by holders of a majority of the voting power of our outstanding common stock as of the Dissolution Record Date is required to approve the proposal to revoke the Plan of Dissolution. Each holder of record of common stock on the Dissolution Record Date will be entitled to one vote for each share held on the proposal to revoke the Plan of Dissolution. Our officers and directors collectively own or control an aggregate of 11,649,159 shares of our common stock as of the Going Private Record Date, which represent 48.2% of the total number of votes entitled to vote at the special meeting on the proposal to approve the Partial Cash-Out Merger, and owned or controlled an aggregate of 1,182,376 shares of common stock as the Dissolution Record Date, representing 5.5% of the total number of votes entitled to vote at the special meeting on the proposal to revoke the Plan of Dissolution. Our officers and directors have indicated to Footstar that they intend to vote their shares in favor of the proposal to approve the Partial Cash-Out Merger and the proposal to revoke the Plan of Dissolution.

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All votes will be tabulated by the inspector of elections appointed for the special meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Brokers who hold shares in street name for clients typically have the authority to vote on "routine" proposals when they have not received instructions from beneficial owners. However, absent specific instructions from the beneficial owner of the shares, brokers are not allowed to exercise their voting discretion with respect to the adoption and approval of non-routine matters, such as the proposal to approve the Partial Cash-Out Merger or the proposal to revoke the Plan of Dissolution. Proxies submitted without a vote by the brokers on these matters are referred to as "broker non-votes." Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the special meeting. Because the affirmative vote of holders of a majority of the eligible votes represented by Footstar common stock is required in order to approve the proposal to approve the Partial Cash-Out Merger and the proposal to revoke the Plan of Dissolution, abstentions and broker non-votes will have the same effect as votes "AGAINST" the proposal to approve the Partial Cash-Out Merger proposal and/or the proposal to revoke the Plan of Dissolution, as the case may be.

With the exception of broker non-votes, the treatment of which is discussed above, each share of Footstar common stock entitled to vote on the proposal to adopt the Partial Cash-Out Merger Agreement and represented by a proxy properly executed and received by Footstar in time to be voted at the special meeting, and not revoked, on which no instructions are indicated, will be voted "FOR" the proposal to adopt and approve the Partial Cash-Out Merger and the Partial Cash-Out Merger Agreement and the transactions contemplated thereby. With the exception of broker non-votes, the treatment of which is discussed above, each share of Footstar common stock entitled to vote on the proposal to revoke the Plan of Dissolution and represented by a proxy properly executed and received by Footstar in time to be voted at the special meeting, and not revoked, on which no instructions are indicated, will be voted "FOR" the proposal to revoke the Plan of Dissolution.

The special meeting may be adjourned or postponed to permit further solicitation of proxies. Approval of a motion to adjourn the special meeting for the purpose of soliciting additional proxies requires a majority of the votes represented at the special meeting. Abstentions, broker non-votes and failures to respond will not be counted as votes represented and therefore will have no effect on the outcome of a motion to adjourn for the purpose of soliciting additional proxies. We do not expect any other matters other than the proposal to adopt and approve the Partial Cash-Out Merger Agreement and the proposal to revoke the Plan of Dissolution will be brought before the special meeting. If, however, other matters incident to the conduct of the special meeting are considered, the persons named as proxies will vote in accordance with their judgment with respect to those matters, unless authority to do so is withheld on the proxy card.

Quorum

With respect to the proposal to approve the Partial Cash-Out Merger, the presence, in person or by proxy, of the holders of a majority of the outstanding shares of Footstar's common stock as of the Going Private Record Date is necessary to constitute a quorum for this proposal.

With respect to the proposal to revoke the Plan of Dissolution, the presence, in person or by proxy, of the holders of a majority of the outstanding shares of Footstar's common stock as of the Dissolution Record Date is necessary to constitute a quorum for this proposal.

Proxies; Revocation

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with Footstar's Secretary, Jonathan M. Couchman, at Footstar's executive offices located at 933 MacArthur Blvd., Mahwah, New Jersey 07430, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the special meeting and voting in person. Attendance at the special meeting will not, by itself, revoke a proxy. Furthermore, if a stockholder's shares are held of record by a broker, bank or other nominee and the stockholder wishes to vote at the special meeting, the stockholder must obtain a proxy from such broker, bank or other nominee.

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PLEASE DO NOT SEND IN STOCK CERTIFICATES WITH YOUR PROXY CARD AT THIS TIME. IN THE EVENT THE PARTIAL CASH-OUT MERGER IS COMPLETED, FOOTSTAR WILL DISTRIBUTE INSTRUCTIONS REGARDING THE PROCEDURES FOR EXCHANGING FOOTSTAR STOCK CERTIFICATES FOR THE $0.95 PER SHARE CASH PAYMENT TO HOLDERS OF FEWER THAN 500 SHARES OF OUR COMMON STOCK.

Expenses of Proxy Solicitation

Footstar is responsible for its own fees and expenses incurred in connection with the solicitation of proxies in connection with this solicitation, including the fees and expenses associated with the preparation of this proxy statement, the filing, printing and mailing of this proxy statement and any amendments to this proxy statement. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their name shares of Footstar common stock beneficially owned by others for forwarding to these beneficial owners. Footstar may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by directors, officers or other regular employees of Footstar.

Footstar's Chief Executive Officer Jonathan M. Couchman, is the only employee of Footstar assisting Footstar in the solicitation of proxies and the transactions described in this proxy statement.

SPECIAL FACTORS

Footstar Background

Footstar, Inc., a Delaware corporation, is a holding company that is currently winding down pursuant to the Plan of Dissolution, which was adopted by Footstar's stockholders on May 5, 2009.

Until the time it discontinued regular business operations in December 2008, Footstar had operated its business since 1961 through its subsidiaries principally as a retailer selling family footwear through licensed footwear departments in discount chains and wholesale arrangements. Commencing March 2, 2004, Footstar and most of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court. On February 7, 2006, Footstar successfully emerged from bankruptcy. At part of its emergence from bankruptcy, substantially all of Footstar's business operations were related to the agreement pursuant to which it operated the licensed footwear departments in Kmart stores (the "Kmart Agreement").

Following its emergence from bankruptcy, Footstar's board of directors, with the assistance of investment bankers, evaluated a number of possible alternatives to enhance shareholder value, including acquisition opportunities, changes in the terms of Footstar's principal contracts, including the early termination of or extension of the Kmart Agreement, the payment of one or more dividends, and the sale of our assets or stock. The board of directors determined the best course of action was to operate under the Kmart Agreement through its scheduled expiration at the end of December 2008.

In May 2008, the board of directors determined that it was in the best interests of Footstar and its shareholders to liquidate and ultimately dissolve after the expiration of the Kmart Agreement in December 2008 (and other miscellaneous contracts through the end of such term) and to sell and/or dispose of any of Footstar's other remaining assets, including its owned property in Mahwah, New Jersey, which contains its corporate headquarters building, improvements and 21 acres of underlying land (collectively, the "Mahwah Real Estate"). Under the terms of the Kmart Agreement, Kmart was required to purchase from Footstar all of the remaining inventory in the Kmart footwear departments at values set forth in the Kmart Agreement. The process of selling the inventory to Kmart commenced immediately after the expiration of the Kmart Agreement on December 31, 2008. During 2009, Footstar received approximately $55.3 million related to the liquidation sale of the inventory from Kmart in full satisfaction of all of Kmart's obligations. Following the sale of the inventory to Kmart during early 2009, Footstar's principal remaining non-cash asset consisted of the Mahwah Real Estate.

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Also in May 2008, the board of directors approved the Plan of Complete Liquidation of Footstar, Inc. (the "Original Plan"), which provided for the complete liquidation and ultimate dissolution of Footstar after expiration of the Kmart Agreement in December 2008. The Plan of Dissolution reflects technical and legal changes to the Original Plan consistent with the DGCL and was intended to modify, supersede and replace the Original Plan in order to more efficiently facilitate the liquidation and dissolution of Footstar in the best interests of shareholders.

Since Footstar emerged from bankruptcy on February 7, 2006, the board of directors has declared special cash distributions totaling $9.90 per common share, and which included a special cash distribution paid on April 30, 2007, in the amount of $5.00 per common share, totaling $104.8 million, a special cash distribution paid on June 3, 2008, in the amount of $1.00 per common share, totaling approximately $21.3 million and a special cash distribution paid on January 27, 2009, in the amount of $1.00 per common share, totaling approximately $21.5 million. Furthermore, since the Plan of Dissolution was approved, the board of directors has paid special cash distributions on May 6, 2009, in the amount of $2.00 per common share, totaling approximately $43.2 million, on September 10, 2009, in the amount of $0.40 per common share, totaling approximately $8.6 million, on December 16, 2009, in the amount of $0.35 per common share, totaling approximately $7.6 million, on March 12, 2010, in the amount of $0.10 per common share, totaling approximately $2.2 million, and on September 27, 2010, in the amount of $0.05 per common share, totaling approximately $1.2 million.

On March 5, 2009, the board of directors adopted and approved the Plan of Dissolution. On May 5, 2009, at a special meeting of stockholders of Footstar, the stockholders adopted and approved the Plan of Dissolution and Footstar's dissolution. Subsequent to such time, the board of directors moved forward with the liquidation and worked toward selling all of Footstar's remaining assets and settling all claims.

At the close of business on May 5, 2009, Footstar closed its stock transfer books and, at such time, did not record transfers of shares of its common stock until December 15, 2009.

From May 5, 2009, the date Footstar began liquidating pursuant to the Plan of Dissolution, to June 4, 2009, Footstar had discussions with its legal counsel regarding its public company reporting obligations and the board of directors determined that, based on its current status as a liquidating company with no operations, the cost of compliance with the Exchange Act reporting requirements was an unreasonable expense. Accordingly, on June 4, 2009, Footstar submitted a request for no-action to the SEC requesting Footstar be granted relief from its periodic reporting obligations and set forth therein its rationale for granting such relief. On July 6, 2009, Footstar withdrew its request for relief from its Exchange Act periodic reporting obligations on the advice of counsel based on discussions with the SEC that relief at such time would be premature since there was some trading volume in the Company's common stock. From mid-2009 through mid-2010, Footstar again had discussions with its legal counsel and the SEC from time to time regarding requesting relief from its Exchange Act periodic reporting obligations pursuant to a no-action request. The board of directors determined, based upon advice received, that obtaining no-action relief was unlikely due to the level of trading volume in Footstar's common stock. Upon the advice of legal counsel, Footstar determined to no longer pursue such relief and instead explore engaging in a going private transaction.

On December 15, 2009, Footstar re-opened its stock transfer books to address significant numbers of unsettled trades. At the close of business on April 23, 2010, Footstar again closed its stock transfer books and, at such time, no longer recorded transfers of shares of its common stock. Certificates representing shares of the Footstar's common stock are not assignable or transferable on the books of Footstar after April 23, 2009 except by will, intestate, succession or operation of law.

After determining not to pursue obtaining no-action relief from the SEC, Mr. Couchman had informal discussions with Footstar's legal counsel and the other members of the board of directors from time to time regarding the possibility of engaging in a going private transaction to reduce the high expenses associated with remaining a public company while Footstar dissolved pursuant to its Plan of Dissolution. In August 2010, the board of directors was made aware of an opportunity regarding a potential strategic transaction with CPEX. As part of its assessment as to whether to pursue the CPEX Transaction, the board of directors also reevaluated whether it continued to be advisable to continue liquidating Footstar pursuant to the Plan of Dissolution. The board of directors considered that, regardless of whether the CPEX Transaction was consummated, it may be advisable to suspend liquidating Footstar pursuant to the Plan of Dissolution and pursue strategic transactions as a going concern. Since the consummation of the CPEX Transaction was time sensitive, Footstar's board of directors believed that Footstar's primary focus after the August 2010 meeting was to work on entering into a transaction with CPEX and that, after an agreement with CPEX was entered into or discussions had terminated, it could focus more specifically on revoking the Plan of Dissolution and entering into a going private transaction. Accordingly, between August 2010 and entering into the CPEX Transaction Agreement on January 3, 2011, Footstar suspended its consideration of a going private transaction and did not actively pursue seeking approval of revocation of the Plan of Dissolution. From August 2010 through January 3, 2011, Footstar negotiated the terms of a strategic merger transaction with CPEX pursuant to which CPEX would become a majority-owned indirect subsidiary of Footstar.

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On January 3, 2011, CPEX, NewCo and Merger Sub entered into the CPEX Transaction Agreement. On April 5, 2011, the transaction was consummated, and Merger Sub merged with and into CPEX (the “CPEX Transaction”), and CPEX became a wholly owned subsidiary of NewCo and an indirectly, majority-owned subsidiary of Footstar.

See “SPECIAL FACTORS – Transaction with CPEX” for a more complete description of the CPEX Transaction Agreement.

As discussed above, from time to time, Jonathan Couchman, our Chief Executive Officer, discussed with Olshan Grundman Frome Rosenzweig & Wolosky LLP (“Olshan”), Footstar’s outside counsel, details regarding potential alternatives whereby we could cease to be a public company in order to reduce or eliminate the costs of compliance with the federal securities laws and the Sarbanes-Oxley Act, or a “going private” transaction.

At a meeting in January 2011, the board of directors continued to review terminating Footstar’s Exchange Act registration and becoming a non-public company in a going private transaction. At the meeting, the board of directors undertook a thorough analysis of Footstar’s operating cost structure and future plans, including the possibility that the CPEX Transaction is not consummated. As a result of this analysis, the board of directors determined that (1) regardless of whether the CPEX Transaction was consummated, it was in the best interest of Footstar stockholders for Footstar to revoke its Plan of Dissolution and pursue strategic opportunities as a going concern and (2) the benefits to stockholders of remaining a reporting company, whether or not the CPEX Transaction was consummated, are not justified by their costs under any foreseeable scenario. The board of directors then concluded that Footstar continue to explore a going private transaction and determined to recommend to stockholders that Footstar revoke its Plan of Dissolution.

On February 14, 2011, Olshan met with the board of directors and presented an overview of the board’s fiduciary duties and responsibilities when considering a going private transaction, noting in particular that the board’s consideration of a going private transaction must satisfy the “entire fairness” standard of review under Delaware law, such that both the process used to evaluate, negotiate and approve any such transaction is deemed fair, as well as the resulting price offering to unaffiliated stockholders. Olshan then discussed with the board the primary factors to consider in order to ensure that the process and price are fair to unaffiliated stockholders.

The board next discussed with Olshan the general mechanics of a partial cash-out merger transaction similar to the Partial Cash-Out Merger described in this proxy statement, including the number of record holders required to be cashed-out under in order to reduce the number of record holders below 300, such that Footstar could deregister its common stock under the Exchange Act. In addition to a partial cash-out merger, the board also reviewed with Olshan various other alternative structures, and the advantages and disadvantages to each, for effecting a going private transaction, including a reverse stock split, issuer tender offer, stock repurchase program and odd-lot repurchase program. The board also discussed with Olshan the advantages and disadvantages of remaining a public company.

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The board of directors next reviewed all materials relevant to its consideration of engaging in a going private transaction, including all advice and information it had received, the various alternatives for effecting a going private transaction and other factors. The board then determined that, based on all of the factors that had been considered by the board, that:

- it is in the best interest of Footstar and its stockholders, including all unaffiliated stockholders, to engage in a going private transaction; and

- a going private transaction effected by means of a partial cash-out merger similar to the Partial Cash-Out Merger described in this proxy statement would be in Footstar's best interests and that of our unaffiliated stockholders.

Following further discussions, the board considered a cash-out price of $0.905, which is based on the trailing average of the closing price of the common stock for the 20 trading days prior to February 14, 2011, the date of determination of the price. The board then determined that a premium of 5% over such average closing price, for a cash-out price of $0.95, without interest, is fair to and in the best interest of our unaffiliated stockholders (including both cashed-out and continuing stockholders). In determining the premium, the board of directors considered the recent increase in trading price following the announcement of the CPEX Transaction and the limited trading volume for the common stock. In addition, due to the CPEX Transaction, the board of directors determined that, in calculating an average historical closing price for the common stock, an average of closing prices during a period of time subsequent to the announcement of the CPEX Transaction would more accurately reflect the current fair value of the common stock because Footstar believes such prices are indicative of investors' assessment of the value of the CPEX Transaction on Footstar.

The board then determined that the minimum number of shares stockholders would need to hold in order to not be cashed out in the Partial Cash-Out Merger would be 500. The board based this conclusion on the fact that, after cashing out stockholders who hold fewer than 500 shares, Footstar would be eligible for deregistration of its Common Stock and, upon such deregistration, would become a non-reporting company. The board considered several different thresholds and determined that a cash-out threshold of 500 shares was appropriate because, once the Partial Cash-Out Merger was consummated, Footstar would be able to achieve its objective of deregistering from the Exchange Act filing requirements while at the same time impacting only approximately 0.5% of Footstar's outstanding shares.

After considering the going private transaction discussed in this proxy statement, including the Partial Cash-Out Merger, the board of directors (including those directors who are not employees of Footstar) unanimously resolved to authorize its officers to finalize the Partial Cash-Out Merger Agreement and proceed with plans to go private by cashing out stockholders of Footstar with fewer than 500 shares.

Following the meeting of the board of directors, on February 14, 2011, Footstar and Acquisition executed the Partial Cash-Out Merger Agreement.

Transaction with CPEX

On January 3, 2011, CPEX, NewCo and Merger Sub entered into the CPEX Transaction Agreement. On April 5, 2011, the transaction was consummated, and Merger Sub merged with and into CPEX (the "CPEX Transaction"), and CPEX became a wholly owned subsidiary of NewCo and an indirectly, majority-owned subsidiary of Footstar.

CPEX is a wholly owned subsidiary of NewCo, which is owned 80.5% by Footstar Corp, and 19.5% by the 19.5% Stockholder. Footstar Corp is a wholly owned subsidiary of Footstar. In exchange for their respective 80.5% and 19.5% ownership of NewCo, Footstar Corp and the 19.5% Stockholder provided approximately $3.2 million and approximately $0.8 million, respectively, in equity financing to fund the CPEX Transaction.

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At the effective time of the CPEX Transaction (the "CPEX Transaction Effective Time"), each share of CPEX common stock issued and outstanding immediately prior to the CPEX Transaction Effective Time was converted into the right to receive $27.25 in cash, without interest (the "CPEX Transaction Consideration"). Immediately prior to the CPEX Transaction Effective Time, each outstanding unvested and non-exercisable CPEX stock option became fully vested and exercisable. As of the CPEX Transaction Effective Time, each outstanding CPEX stock option that is outstanding immediately prior to the CPEX Transaction Effective Time was cancelled in exchange for the right to receive a lump sum cash payment (without interest and less any applicable withholding taxes) equal to the product of (i) the excess, if any, of the CPEX Transaction Consideration over the per share exercise price for such CPEX stock option and (ii) the total number of shares underlying such CPEX stock option. Immediately prior to the Effective Time, each outstanding CPEX restricted stock unit became fully vested and cancelled in exchange for the right to receive a lump sum cash payment (without interest and less any applicable withholding taxes) equal to the product of (i) the CPEX Transaction Consideration and (ii) the total number of shares underlying such CPEX restricted stock unit.

On April 5, 2011, in connection with the Merger, FCB I LLC ("Borrower"), a wholly owned subsidiary of Merger Sub which became a wholly owned subsidiary of CPEX upon Merger Sub's merger with and into CPEX, borrowed approximately $64 million under that certain Loan Agreement dated as of January 3, 2011 (the "Term Loan Agreement"), by and among Borrower, The Bank of New York Mellon, as Agent, and certain Lenders from time to time party thereto, in the form of a secured term loan to Borrower. The term loan under the Term Loan Agreement bears interest at "LIBOR" plus 16% per annum and matures on the earlier of January 3, 2026 or the date any of CPEX's patents that are associated with Testim, a topical testosterone gel, expire, and contains customary events of default for loans of such nature.

On April 5, 2011, in connection with the Merger, Footstar Corp made a $3 million bridge loan to NewCo under that certain Loan Agreement dated as of April 5, 2011 (the "Footstar Loan Agreement"), by and between NewCo and Footstar Corp. The loan bore interest at 20% per annum and provided for a fee of 3% of the principal amount (less accrued interest) payable to Footstar, which was due upon repayment of the loan. The bridge loan matured on April 9, 2011, and was repaid on or prior to the maturity date.

On April 5, 2011, in connection with the Merger, Black Horse Capital LP and Black Horse Capital Master Fund Ltd. (together, "Black Horse") made a $10 million bridge loan to NewCo under that certain Loan Agreement dated as of April 5, 2011 (the "Black Horse Loan Agreement"), by and between Black Horse and NewCo. The bridge loan under the Black Horse Loan Agreement had substantially the same terms as the bridge loan under the Footstar Loan Agreement, and was repaid on or prior to the maturity date.

Concurrently with the execution of the CPEX Transaction Agreement, NewCo, Footstar Corp and the 19.5% Stockholder entered into a Stockholders' Agreement, which provides certain provisions governing the control and operation of each of NewCo and Merger Sub, Borrower and CPEX (as the surviving corporation of the CPEX Transaction), restrictions on the transfer of shares of NewCo common stock and various other prohibitions.

The foregoing description of the CPEX Transaction Agreement and the Term Loan Agreement does not purport to be complete and is qualified in its entirety by reference to (i) the CPEX Transaction Agreement, a copy of which is filed as Exhibit 2.1 to the Current Report on Form 8-K filed by Footstar on January 6, 2011, and (ii) the Term Loan Agreement, a copy of which is filed as Exhibit 10.1 to the Current Report on Form 8-K filed by Footstar on April 6, 2011, and each is hereby incorporated into this report by reference.

Recommendation of the Board of Directors; Fairness of the Partial Cash-Out Merger

The board of directors has unanimously determined that the terms of the Partial Cash-Out Merger and the Partial Cash-Out Merger Agreement are advisable, fair to and in the best interests of the Footstar stockholders, including unaffiliated cashed-out stockholders and unaffiliated continuing stockholders, and, accordingly, recommends that stockholders of record as the Going Private Record Date vote "FOR" the proposal to approve the Partial Cash-Out Merger and stockholders of record as of the Dissolution Record Date vote "FOR" the proposal to revoke the Plan of Dissolution. The board of directors considered a number of factors, as more fully described under "—Background of the Partial Cash-Out Merger" and "—Reasons for the Board's Recommendation," in making its recommendation.

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The board of directors believes that the Partial Cash-Out Merger, the Partial Cash-Out Merger Agreement and the related transactions are substantively and procedurally fair to and in the best interests of the Footstar stockholders, including unaffiliated stockholders, for all of the reasons set forth herein. See "Special Factors—Reasons for the Board's Recommendation." In reaching its conclusions regarding fairness, the board of directors considered the interests of both record holders of fewer than 500 of our shares who will receive $0.95 per share in cash for their shares, and record holders of 500 or more of our shares who will remain stockholders after Footstar deregisters from its reporting obligations under the Exchange Act.

The board of directors of Footstar has determined that the minimum number of shares stockholders need to hold in order to not be cashed out in the Partial Cash-Out Merger is 500. Footstar believes that after cashing out stockholders who hold fewer than 500 shares, it will be eligible for deregistration of its common stock and, upon such deregistration, would no longer be subject to the filing requirements of the Exchange Act. The board considered several different thresholds and believes a cash-out threshold of 500 shares is an appropriate threshold because, once the Partial Cash-Out Merger is consummated, Footstar will be able to achieve its objective of deregistering from the Exchange Act filing requirements while at the same time impacting approximately only 0.5% of Footstar's outstanding shares. Because stockholders can increase their holdings to 500 or more shares to avoid being cashed out in the Partial Cash-Out Merger, Footstar did not believe it was necessary to consider the feasibility of an alternative transaction whereby all stockholders, including those with small amounts of shares, would retain their equity interest in Footstar, such as a reclassification. Footstar also elected not to pursue a reverse stock split because its certificate of incorporation required the approval of holders of at least 80% of its shares outstanding common stock to effectuate a reverse stock split.

With respect to cashed-out Footstar stockholders, the board of directors considered, among other things, the fact that the cashed-out stockholders will not be able to participate in the future earnings and growth of Footstar, if any. However, the board of directors believes that these factors are more than offset by the benefits to the cashed-out stockholders, including (1) that the Partial Cash-Out Merger consideration of $0.95 per share represents a premium of 5% over the trailing average of the closing price of our common stock for the 20 trading days prior to February 14, 2011, the date of our public announcement of the execution of the Partial Cash-Out Merger Agreement, (2) the value presented by the opportunity to realize a disposition of an otherwise relatively small investment without incurring brokerage commissions or fees and (3) that stockholders who would otherwise be cashed out but desire to retain their equity interest in Footstar after the Partial Cash-Out Merger can increase the number of shares they hold to 500 shares or more prior to the effective time. Footstar believes that only approximately 0.5% of its outstanding shares (or [__] shares) will be impacted by the Partial Cash-Out Merger. Because of this small number, Footstar does not expect stockholders who wish to purchase additional shares to avoid being cashed out in the Partial Cash-Out Merger will experience significant difficulty in effecting such purchase on the OTC Bulletin Board, even though, at times, there has been limited trading volume in Footstar's common stock. However, there can be no assurance that each individual stockholder wishing to effect such purchase will be able to do so. Because the board believes stockholders should, in all likelihood, be able to acquire additional shares for such purpose, the board of directors did not believe it was an important to consider this fact with respect to its determination of the fairness of the Partial cash-Out Merger. See "—Purpose of the Partial Cash-Out Merger" and "—Reasons for the Board's Recommendation."

In the last two years, no firm offers have been made to Footstar with respect to any merger or consolidation, the sale or other transfer of all or any substantial part of our assets or the purchase of a controlling share of our securities. The board of directors did not believe this fact was relevant to its consideration of the fairness of the Partial Cash-Out Merger to Footstar's unaffiliated shareholders or the determination of the cash-out price.

With respect to continuing Footstar stockholders, the board of directors considered, among other things, the adverse effect of the loss of a public trading market for the common stock, the lack of publicly available information on Footstar when it ceases to file Exchange Act reports, that Footstar will no longer be subject to the provisions of the

Sarbanes-Oxley Act when it terminates its Exchange Act registration and the reduced cash balance resulting from the transaction costs for the Partial Cash-Out Merger. However, the board of directors believes that these factors are more than offset by the benefits to the remaining stockholders created by the lower expenses and other benefits of becoming a non-reporting. See “—Purpose of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation.”

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The Partial Cash-Out Merger was approved unanimously by all directors of Footstar who are not employees of Footstar. The Partial Cash-Out Merger does not require approval of the majority of unaffiliated stockholders of Footstar. The majority of directors who are not employees of Footstar did not retain an unaffiliated representative to act solely on behalf of unaffiliated stockholders for purposes of negotiating the Partial Cash-Out Merger or preparing a report concerning the fairness of the transaction. In connection with the Partial Cash-Out Merger, the filing persons have not made any provision to grant unaffiliated security holders access to the corporate files of the filing person or to obtain counsel or appraisal services at the expense of the filing person.

The board of directors believes that it was not necessary to retain a disinterested representative to negotiate on behalf of the unaffiliated stockholders or to structure the Partial Cash-Out Merger to require approval of at least a majority of unaffiliated stockholders because (i) unaffiliated and affiliated stockholders would be treated the same in the Partial Cash-Out Merger and there are no divergent interest between affiliated and unaffiliated stockholders, (ii) any of such stockholders could change his or her stock holdings prior to the Effective Date, as described above, in order to either get cashed out in the Partial Cash-Out Merger or continue as a stockholder of Footstar following the Partial Cash-Out Merger, (iii) approval of the Partial Cash-Out Merger requires the affirmative vote of at least a majority of outstanding stockholders and (iv) the Partial Cash-Out Merger was approved unanimously by all directors of Footstar who are not employees of Footstar and who will not have any continuing interest in or other relationship with Footstar as the surviving corporation (other than ownership of less than 2% each of outstanding common stock after the Partial Cash-Out Merger and continued service on the board of directors). With respect to unaffiliated stockholders' access to our corporate files, the board of directors determined that this proxy statement, together with our other filings with the SEC, provide adequate information for unaffiliated stockholders to make an informed decision with respect to the Partial Cash-Out Merger. The board of directors also considered the fact that under Delaware law, subject to certain conditions, stockholders have the right to review our relevant books and records.

Determination of Cash-Out Price

The board of directors considered recent and historical trades of the Footstar common stock. The common stock has traded since December 30, 2003 on the OTC Bulletin Board. That market has represented the principal outlet for stockholders who wished to dispose of shares of common stock. The board of directors viewed that market as a good indicator of what a willing buyer would pay to a willing seller, neither one of whom is under any compulsion to buy or sell, after considering such factors as their estimate of Footstar's value as a whole, its earnings and performance history, its prospects, the prospects of the industry as a whole, the announcement and execution of the CPEX Transaction Agreement, an assessment of the control parties and management of Footstar, and other factors that typically bear on a common stock purchase or sale decision. Accordingly, the board of directors determined that a cash-out price based on the historical market prices of Footstar's common stock would constitute a reasonably accurate method of determining the fair value of shares of common stock being cashed out in the Partial Cash-Out Merger. In determining the cash-out price based on historical trades in the common stock, the board of directors determined that an average closing price of the common stock over a period of time, rather than the closing price as of a specified date, would more accurately represent the current value of the common stock. In addition, due to the CPEX Transaction, the board of directors determined that, in calculating an average historical closing price for the common stock, an average of closing prices during a period of time subsequent to the announcement of the CPEX Transaction would more accurately reflect the current fair value of the common stock because Footstar believes such prices are indicative of investors' assessment of the value of the CPEX Transaction on Footstar. The board of directors did not believe the fact that Footstar is currently liquidating to be material to its consideration of historical closing prices given that Footstar has a relatively liquid public market. The board of directors accordingly determined to calculate the cash-out price as a price equal to the trailing average of the closing price of the common stock for the 20 days prior to February 14, 2011, the date of our public announcement of the execution of the Partial Cash-Out Merger Agreement, plus a premium of 5%. In determining the premium, the board of directors considered the recent increase in trading price following the announcement of the CPEX Transaction and the limited trading volume for the common stock. Given that, during such 20-day period, Footstar's trailing average closing price was $0.905 per share and Footstar's common stock had high and low trading prices of $0.98 and $0.75 per share, respectively, and high and low closing prices of $0.95 and $0.82 respectively, the board believed that the 20-day trailing closing average was an appropriate indication of the fair market value for Footstar's common stock. In addition, neither this trailing average nor these ranges materially deviated from the full trailing closing average and full ranges of trading and closing prices of Footstar stock since the announcement of the CPEX Transaction, with exception for a limited number of anomalous trades. The board of directors determined that a 5% premium over the 20 trading day closing price trailing average from February 14, 2011 of $0.905, which provided for a $0.95 cash-out price, was fair to the unaffiliated stockholders being cashed out in the Partial Cash-Out Merger in light of the factors considered by the board of directors as described above.

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Net Assets per Share. The net assets per share of Footstar on January 1, 2011 was $0.40. Accordingly, the $0.95 per share cash-out price represents a premium to the net assets per share of 134%. The board of directors believes that, in light of the CPEX Transaction, and the corresponding increase in the trading price of our common stock, that a 5% premium over the 20 trading day trailing average of our common stock prior to the announcement of the execution of the Partial Cash-Out Merger Agreement represents a fair price for the common stock being cashed-out because it best reflects the value of the CPEX Transaction to Footstar stockholders.

Liquidation Value. The board of directors believes that the assets of Footstar could potentially be worth substantially more in a continuation of the business as a going concern than on a liquidated basis, particularly since Footstar, through its subsidiaries, is now highly leveraged as a result of the CPEX Transaction. Therefore, the board of directors determined that a valuation based on the liquidation value of Footstar would not be an appropriate method of valuation in determining the cash-out price for the Partial Cash-Out Merger.

Going Concern Value. The board of directors did not obtain a financial analysis for going concern value of Footstar because it determined that the expense associated with obtaining such valuation was not justified in light of the fact that (1) as described above, the board of directors determined that a valuation based on a 20-day trailing historical closing average is a reasonably accurate reflection of fair value, (2) the Partial Cash-Out Merger will only result in approximately 0.5% of our stockholders being cashed out, and (3) the board of directors determined that the Partial Cash-Out Merger is in the best interest of both our cashed-out and continuing unaffiliated stockholders. In addition, the board of directors did not take into consideration the potential value of the CPEX Transaction in determining the price to be paid to cashed-out stockholders because it determined the market assessment of the value of the CPEX Transaction, as reflected in Footstar's quoted stock price, was a more concrete measure of the value of the CPEX Transaction.

Past Purchases by Affiliates. Because such purchases occurred before the announcement of the CPEX Transaction, the board of directors determined that the past purchase prices paid for Footstar stock by Mr. Couchman, which ranged from $0.25 to $1.08 during the period from May 27, 2009 to July 21, 2010, and none of which were subsequent to July 21, 2010, was not an appropriate method of valuation in determining the cash-out price for the Partial Cash-Out Merger.

Footstar did not receive a report, opinion, or appraisal from an outside party as to the value of our common stock, or the fairness of the Partial Cash-Out Merger to stockholders who will receive cash in the Partial Cash-Out Merger, stockholders who will remain stockholders following the Partial Cash-Out Merger or unaffiliated or affiliated stockholders or Footstar, or otherwise engage a financial advisor in connection with the Partial Cash-Out Merger.

The independent members of the board of directors concluded that there were already sufficient procedural safeguards without the expense of obtaining a report from an outside party concerning the fairness of the transaction, particularly since (i) unaffiliated and affiliated stockholders would be treated the same in the Partial Cash-Out Merger and there are no divergent interest between affiliated and unaffiliated stockholders, (ii) any of such stockholders could change his or her stock holdings prior to the Effective Date, as described above, in order to either get cashed out in the Partial Cash-Out Merger or continue as a stockholder of Footstar following the Partial Cash-Out Merger and (iii) the Partial Cash-Out Merger was approved unanimously by all directors of Footstar who are not employees of Footstar and who will not have any continuing interest in or other relationship with Footstar as the surviving corporation (other than ownership of less than 2% each of outstanding common stock after the Partial Cash-Out Merger and continued service on the board of directors). In addition, the board of directors took into account the importance of preserving Footstar's cash position and completing the Partial Cash-Out Merger as expeditiously as practicable.

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Reasons for the Board's Recommendation

In adopting the Partial Cash-Out Merger Agreement and approving the Partial Cash-Out Merger, the board of directors considered a number of factors, including but not limited to the following:

- The Partial Cash-Out Merger consideration of $0.95 per share represents a premium of 5% over the 20 trading day trailing average of our common stock prior to February 14, 2011, the date of public announcement of the execution of the Partial Cash-Out Merger Agreement, and a premium of 134% over the net assets per share on January 1, 2011.

- The substantial ongoing expenses incurred by Footstar as a public reporting company in connection with its obligations to file periodic reports with the SEC.

- The benefits that those continuing stockholders of Footstar would receive as a result of the reduction in the expenses Footstar incurred as a reporting company.

- The fact that the Partial Cash-Out Merger will need to be approved by a majority of stockholders, regardless of whether they are affiliated with Footstar.

- The value to our small stockholders of the opportunity presented by the Partial Cash-Out Merger to realize a disposition of an otherwise relatively small investment without incurring brokerage commissions or fees as compared to the loss of the opportunity to continue as a stockholder of Footstar and participate in the future earnings and growth of Footstar, if any.

- Our small stockholders will receive a fixed amount of cash, rather than securities or some sort of deferred payment.

- Since only 0.5% of our shares are held by stockholders owning less than 500 shares, the Partial Cash-Out merger will impact only a minimal amount of outstanding shares. Accordingly, the Partial Cash-Out Merger will likewise have only a minimal effect on the voting power of continuing stockholders, and affiliated stockholders will realize a less than 1% increase in their aggregate voting power.

- The potential impact on our remaining stockholders after the Partial Cash-Out Merger of the absence of financial and other information contained in periodic reports filed with the SEC and that Footstar will no longer be subject to the provisions of the Sarbanes-Oxley Act or certain liability provisions of the Exchange Act.

- The limited public trading volume and liquidity of our common stock.

- Stockholders that desire to retain their equity interest in Footstar after the Partial Cash-Out Merger can increase the number of shares they hold to 500 shares or more held of record prior to the effective time of the Partial Cash-Out Merger, thereby avoiding being cashed-out.

- Stockholders that desire to sell their equity interest in Footstar in the Partial Cash-Out Merger can sell their holdings down below 500 shares held of record or split their accounts so that each record account is below 500 shares, and then, in either case, participate in the Partial Cash-Out Merger.

- Because of the small number of shares impacted by the Partial Cash-Out Merger, Footstar does not expect stockholders who wish to purchase additional shares to avoid being cashed out in the Partial Cash-Out Merger will experience significant difficulty in effecting such purchase on the OTC Bulletin Board, even though, at times, there has been limited trading volume in Footstar's common stock. However, there can be no assurance that each individual stockholder wishing to effect such purchase will be able to do so.

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- The reduced cash balance resulting from the estimated total transaction cost of $242,500, including professional fees and other expenses.

- The risk that the announcement of the Partial Cash-Out Merger may have a negative effect on the trading price of the common stock quoted on the OTC Bulletin Board.

- Uncertainties concerning the economy in general and the capital markets.

- The degree of likelihood that the Partial Cash-Out Merger will be completed.

- The rights of dissenting stockholders to seek appraisal of the value of their shares of common stock under Delaware law.

After considering these factors, the board of directors concluded that the positive factors relating to the Partial Cash-Out Merger outweighed the negative factors. Because of the variety of factors considered, the board of directors did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching its determination.

The foregoing discussion is not intended to be exhaustive but is believed to include all material factors considered by the board of directors.

Purpose of the Partial Cash-Out Merger

General. The purpose of the Partial Cash-Out Merger is to allow Footstar to reduce the number of record holders of its common stock so that Footstar may terminate the registration of its common stock under the Exchange Act, while providing liquidity for holders of Footstar common stock owning fewer than 500 shares and maximizing value to be received by all holders of Footstar common stock.

As part of its assessment as to whether to pursue the CPEX Transaction, Footstar's board of directors undertook a thorough analysis of Footstar's operating cost structure and future plans. As a result of this analysis, the Footstar Board determined that (1) it is in the best interest of Footstar stockholders for Footstar to revoke its Plan of Dissolution and pursue strategic transactions as a going concern and (2) the benefits to the stockholders of remaining a reporting company are not justified by their costs under any foreseeable scenario.

For smaller publicly traded companies, such as Footstar, pubic company costs represent a larger portion of our revenues than for larger public companies and the fixed costs of being an Exchange Act reporting company have continued to increase. After Footstar determined to propose that shareholders revoke the Plan of Dissolution and operate as a going concern, the potential long-term costs associated with being a public company became a significant operating cost because there was no longer a fixed time after which Footstar would finally dissolve and Footstar has limited capital resources. The Footstar board of directors believes that these costs will significantly increase as a result of the CPEX Transaction particularly because of the controls and procedures required by the Sarbanes-Oxley Act and Footstar believes that due to the leverage incurred by its subsidiaries as a result of the CPEX Transaction it needs to reduce its costs. In addition, the board of directors of Footstar determined that Footstar is not currently, and will not in the foreseeable future, realize the benefits normally presumed to result from being a reporting company, such as access to the public capital markets, due to the nature of our current and proposed future operations, including the consummation of the CPEX Transaction, as a result of which, Footstar, through its subsidiaries, is highly leveraged.

In light of this analysis, we believe that the increased cost savings to continuing stockholders from becoming a non-reporting company are in the best interest of Footstar and its stockholders. In addition, cashed-out stockholders who wish to participate in future earnings and growth of Footstar, if any, may increase the number of shares they hold to 500 or more if they wish to remain stockholders of Footstar after the Partial Cash-Out Merger.

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Although many of the aforementioned factors have existed for some time, the fact that Footstar is proposing that shareholders vote to revoke the Plan of Dissolution created the possibility that the costs associated with remaining a public company will become a significant permanent cost because there may no longer be a fixed time after which Footstar will finally dissolve. In addition, Footstar does not anticipate a future need of the benefits of remaining a public company, such as access to the public capital markets and it believes that as a result of the significant leverage it has incurred through its subsidiaries it would be difficult to access the public capital markets. It is this current convergence of increased potential SEC reporting company costs and the nature of our current and proposed future operations, including the possible revocation of the Plan of Dissolution and consummation of the CPEX Transaction, which has caused us to propose undertaking the Partial Cash-Out Merger at this time.

Reduced Costs and Expenses. Management estimates that Footstar will achieve cost savings of approximately $250,000 to $300,000 per year from reduced legal and accounting fees, printing and mailing costs, directors and officers insurance premiums, and other incidental costs of remaining an Exchange Act reporting company. The termination of the Exchange Act registration will make most provisions of the Exchange Act inapplicable, such as the requirement to file quarterly and annual reports with the SEC, the short-swing profit recovery provisions of Section 16(b) of the Exchange Act, the requirement of furnishing a proxy or information statement in connection with stockholders' meetings and certain of the corporate governance requirements under the Sarbanes-Oxley Act. The board of directors believes this termination will have the effect of avoiding additional future costs to Footstar. In addition, there will be other benefits which are difficult to quantify from reduced management distraction and reallocation of internal resources associated with maintaining Footstar's Exchange Act registration.

NOLs. Footstar has experienced substantial net operating losses, or "NOLs," and may use such NOLs to offset net income generated in future periods and thereby reduce its payments for taxes in such future periods. Following the Transaction, such NOLs will continue to be available to Footstar and, to the extent such NOLs may be used under applicable law to offset net income in future periods, will benefit Footstar and its stockholders, including the unaffiliated stockholders who continue to be stockholders of Footstar following the Transaction. As of January 1, 2011, we had NOL carryforwards for federal income tax purposes of approximately $122.7 million, although there is no assurance Footstar will be able to avail itself of these NOLs.

Limited Trading Volume and Liquidity for Small Stockholdings. The board believes that holders of small amounts of shares of our common stock may be deterred from selling their shares because of the limited trading volume in Footstar stock and possible disproportionately high brokerage costs. The Partial Cash-Out Merger will offer each small stockholder the opportunity to obtain cash for their shares without the cost of dealing with a broker.

Position of Footstar as to Reasons, Alternatives and Effects of the Partial Cash-Out Merger

Reasons. The board of director's reasons for recommending the adoption of the Partial Cash-Out Merger Agreement and approval of the Partial Cash-Out Merger are described under "Special Factors—Background of the Partial Cash-Out Merger" and "—Reasons for the Board's Recommendation."

Alternatives to the Partial Cash-Out Merger.

In making the determination to proceed with the Partial Cash-Out Merger, the board of directors also considered the feasibility of certain other alternative transactions, as described below:

- Issuer Tender Offer. The board of directors also considered the feasibility of a tender offer to repurchase the shares of common stock held by our unaffiliated stockholders. Due to the voluntary nature of such a transaction, we would have no assurance that the transaction would result in a sufficient number of shares being tendered. Moreover, the tender offer rules regarding the treatment of stockholders, including pro-rata acceptance of offers from stockholders, make it difficult to ensure that we would be able to significantly reduce the number of record stockholders. As a result of these disadvantages, the board of directors determined not to pursue this alternative.

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- Reverse Stock Split. The board of directors also considered the feasibility of a reverse split to reduce the number of our record stockholders. While the effect of this transaction would be similar to the Partial Cash-Out Merger, the board of directors rejected this alternative because it believe the structure of a partial cash-out merger would be more likely to be approved, particularly since Footstar's Certificate of Incorporation requires the approval of holders of 80% of the outstanding shares of common stock to effectuate a reverse stock split.

- Traditional Stock Repurchase Program. The board of directors also considered a plan whereby we would periodically repurchase shares of common stock on the open market at the then current market price. We rejected such an approach. Repurchasing enough shares in this manner to enable us to deregister under the Exchange Act would likely take an extended period of time, have no assurance of success and be of undeterminable cost.

- Odd-Lot Repurchase Program. The board of directors also considered the feasibility of a transaction in which we would announce to our stockholders that we would repurchase, at a designated price per share, the shares of common stock held by any stockholder who holds less than a specified number of shares and who offers such shares for sale pursuant to the terms of the program. A principal disadvantage of such an approach, however, results from the voluntary nature of the program. Because stockholders would not be required to participate in the program, we could not be certain at the outset whether a sufficient number of odd-lot stockholders would participate and thereby result in the number of stockholders being reduced to below 300. In terms of timing, such a program, especially after giving effect to any extensions of deadlines for tendering into the program, would likely necessitate a longer time frame than that of the Partial Cash-Out Merger. As a result of these disadvantages, the board of directors rejected this alternative.

- Maintaining the Status Quo. The board of directors also considered maintaining the status quo. In that case, we would continue to incur the expenses of being a public reporting company and enjoy the benefits traditionally associated with having public reporting company status. The board of directors believes that maintaining the status quo is not in our best interests and rejected this alternative.

Effect on the Number of Stockholders. We believe that the Partial Cash-Out Merger will reduce the number of record stockholders from approximately [2,600] to approximately 200.

Effect on Securities Exchange Act Registration and Reporting Requirements. Our common stock is currently registered under Section 12(g) of the Exchange Act and, as a result, we are subject to the periodic reporting and other requirements of the Exchange Act. As a result of the Partial Cash-Out Merger, we will have fewer than 300 holders of record of common stock, and will be eligible to terminate our obligation to continue filing periodic reports under the Exchange Act. As soon as possible after the effective time of the Partial Cash-Out Merger, we will file for deregistration of the common stock under the Exchange Act and will become a "private" company. Termination of this filing requirement under the Exchange Act will substantially reduce the information we are required to furnish to our stockholders and to the SEC.

Effect on Market for Shares. Our common stock is currently traded in the over-the-counter market, and last sales prices are reported on the OTC Bulletin Board, which is a regulated quotation service that displays real time quotes, last sales prices and volume information in over-the-counter equity securities. There are presently [_] known market makers in our Common Stock. As discussed below, there likely will be a decrease in the market for our shares as a result of the decrease in the number of stockholders and this may affect the price at which remaining stockholders may be able to sell their shares. Once we stop filing reports with the SEC, our common stock will be ineligible for quotation on the OTC Bulletin Board, which may reduce the liquidity of our common stock. While price quotations for our common stock may continue to be reported after deregistration in less formal reporting systems such as the Pink Sheets Electronic Quotation Service, we cannot assure you this will happen or, even if it does happen, that an active market will exist for you to sell your shares if you are a remaining stockholder. However, because the current amount of trading activity in our common stock is so limited, there may be no practical difference for most stockholders who are remaining stockholders following the Partial Cash-Out Merger.

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Effects on Affiliates. As a result of the Partial Cash-Out Merger, Acquisition will cease to exist. The board does not anticipate that the Partial Cash-Out Merger with Acquisition will have any effect on the operation of Footstar Corp, CPEX, NewCo or Borrower. As described below, the Partial Cash-Out Merger will have various effects on our officers and directors, each of whom may, as a result of his or her position with us, be deemed to be an affiliate of ours.

Effects on Stockholders.

The Partial Cash-Out Merger will have various effects on our affiliated and unaffiliated stockholders, as described below. Although none of the affiliated stockholders of Footstar will be cashed out in the Partial Cash-Out Merger, whether a stockholder is cashed out or continues as a stockholder is based solely on the number of shares they hold and is not related to their affiliate status. The effects of the Partial Cash-Out Merger to a stockholder will vary based on whether or not all or any portion of the stockholder's shares will be cashed out in the Partial Cash-Out Merger. The determination of whether or not any particular shares of our common stock will be cashed out in the Partial Cash-Out Merger will be based on whether the holder of those shares holds either fewer than 500 of our shares or 500 or more of our shares in any discrete record account.

Cashed-Out Stockholders. The Partial Cash-Out Merger will have both positive and negative effects on stockholders owning fewer than 500 of our shares immediately prior to the effective time, including those described below. As a result of the Partial Cash-Out Merger, the shares of the cashed-out stockholders will be cancelled and they will:

- receive $0.95 per share, which represents a premium of 5% over the 20 trading day trailing average of our common stock prior to February 14, 2011, the date of public announcement of the execution of the Partial Cash-Out Merger Agreement;

- be able to liquidate their holdings without incurring any service charges or brokerage commissions;

- no longer have any equity interest in Footstar, and, therefore, will not participate in future earnings and growth of Footstar, if any; and

- potentially be required to pay federal and, if applicable, state and local income taxes on the cash amount received in the Partial Cash-Out Merger. See "Proposal to Approve the Partial Cash-Out Merger – Material U.S. Federal Income Tax Consequences."

Continuing Stockholders. The Partial Cash-Out Merger will have both positive and negative effects on stockholders who remain as stockholders if the Partial Cash-Out Merger is effected. These effects include:

- Continuing interest. The remaining stockholders will retain their equity interest in Footstar and, therefore, will participate in future earnings and growth of Footstar.

- Reduced Costs and Expenses. Management estimates that Footstar will achieve costs savings of approximately $250,000 to $300,000 per year from reduced legal and accounting fees, printing and mailing costs and directors and officers insurance premiums, and other incidental costs of remaining an Exchange Act reporting company.

- Decreased access to information. If the Partial Cash-Out Merger is effected, we intend to terminate the registration of our common stock under the Exchange Act and to cease filing periodic reports with the SEC. In addition, our obligation to comply with the requirements of the proxy rules and to file proxy statements under Section 14 of the Exchange Act will also eventually be suspended, and the short-swing profit recovery provisions of Section 16(b) of the Exchange Act and certain corporate governance requirements under the Sarbanes-Oxley Act will also become inapplicable.

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- Decreased liquidity. The liquidity of the shares of common stock held by stockholders may be further reduced by the Partial Cash-Out Merger. Price quotations for our common stock are currently reported on the OTC Bulletin Board. Following the Partial Cash-Out Merger, trading in our common stock, if any, will continue only to occur in the "pink sheets" and in privately negotiated transactions.

- NOLs. Footstar has experienced substantial net operating losses, or "NOLs," and may use such NOLs to offset net income generated in future periods and thereby reduce its payments for taxes in such future periods. Following the Transaction, such NOLs will continue to be available to Footstar and, to the extent such NOLs may be used under applicable law to offset net income in future periods, will benefit Footstar and its stockholders, including the unaffiliated stockholders who continue to be stockholders of Footstar following the Transaction. As of January 1, 2011, we had NOL carryforwards for federal income tax purposes of approximately $122.7 million, although there is no assurance Footstar will be able to avail itself of these NOLs.

Effect on Our Executive Officers and Directors.

In the event of the termination of the registration of our Common Stock and our obligation to file reports under the Exchange Act, our executive officers and directors may be deprived of the ability to dispose of our shares of common stock pursuant to Rule 144 under the Securities Act of 1933.

Increased Share Ownership of Officers and Directors. As a result of the Partial Cash-Out Merger, it is expected that the percentage of ownership of our common stock held by our current officers and directors as a group will increase from approximately 48.2% to approximately [48.5]%. The ownership percentage of directors and executive officers following the Partial Cash-Out Merger may increase or decrease depending on purchases, sales and other transfers of our shares by stockholders prior to the effective time of the Partial Cash-Out Merger. See "– Interests of Certain Directors and Executive Officers of Footstar." For a description of the assumptions we used in determining the numbers of shares and related percentages that we expect to be held by current officers and directors immediately after the Partial Cash-Out Merger, please see "Security Ownership of Certain Beneficial Owners and Management."

Except as otherwise described in this proxy statement, Footstar does not have any present plans or proposals that relate to or would result in an extraordinary corporate transaction following completion of the Partial Cash-Out Merger involving Footstar's corporate structure, business or management, such as a merger, reorganization, liquidation, relocation of any operations or sale or transfer of a material amount of assets. However, Footstar, as the surviving corporation, will continue to evaluate Footstar's business and operations after the Partial Cash-Out Merger and may develop new plans and proposals that Footstar considers to be in the best interests of Footstar and its then current stockholders.

Executive Officers and Directors of the Surviving Corporation

The Partial Cash-Out Merger Agreement provides that the current officers of Footstar will continue as the initial officers of Footstar as the surviving corporation until their respective successors are duly appointed and qualified. It is expected that, in general, all members of Footstar's current management will continue as management of Footstar as the surviving corporation. It is also expected that all of Footstar's directors will continue as directors of Footstar as the surviving corporation.

Financing

Footstar's source of funds to pay substantially all of the Partial Cash-Out Merger consideration is intended to be provided by cash on hand. Footstar does not intend to seek outside financing and has no alternative financing plan. Footstar is confident that it has sufficient resources to complete the Partial Cash-Out Merger. Approximately

$142,500 will be required to pay the aggregate cash Partial Cash-Out Merger consideration to our cashed-out stockholders (although this amount could be larger or smaller depending on, among other things, the result of purchases, sales or other transfers of our common stock prior to the effective time of the Partial Cash-Out Merger and whether the board determines to raise the threshold for which stockholders will be cashed-out in the Partial Cash-Out Merger) and we estimate expenses in connection with the Partial Cash-Out Merger will be approximately $100,000.

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Future Plans

If the proposal to approve the Partial Cash-Out Merger and/or the proposal to revoke the Plan of Dissolution are not approved, it is expected that the current management of Footstar, under the direction of the board of directors, will recommence dissolving Footstar in accordance with the Plan of Dissolution. In addition, if the proposal to revoke the Plan of Dissolution is not approved, Footstar is considering, among other things, taking the actions necessary to spin-off the common stock of Footstar Corp, its wholly-owned